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Prices rise as harvests fail
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Bacteria shrug off antibiotics

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Patten presses UK to admit more Hong Kong citizens

Hong Kong governor Chris Patten (left) is pressing the UK to allow 1.3m Hong Kong Chinese to have the right to enter Britain without visas. The move is being resisted by British home secretary Michael Howard, who is also opposing Mr Patten's demand that a further 7,000 non-Chinese Hong Kong citizens should be given full British passports. Mr Patten fears they will become stateless when Hong Kong reverts to Chinese rule in 1997. Page 12

Postbank lines up partners: Postbank, the German state-owned postal savings bank which is trying to fend off a DM3.1bn ($2.2bn) hostile bid from the postal service Deutsche Post, said it planned to sell strategic stakes to a group of three other German banks and insurance companies. Page 21; Lex, Page 20

Tokyo office sale cheers market: Mitsubishi Estate, Japan's leading property company, is to sell an office block in central Tokyo for Y75.6bn ($746m) in the city's first significant open market property sale in more than a decade. The move could reinforce the shaky value of Japanese commercial property portfolios. Page 20

Fall in demand hits ICI: Imperial Chemical Industries said the economic slowdown in Europe and the US, which cut demand for chemical raw materials by 4 per cent, accounted for a decline in underlying third-quarter sales and profits. Page 21; Lex, Page 20; Dow profits soar, Page 25; ICI's margins decline, Page 26

Thailand eases shares rule: The prices of foreign-registered shares on Thailand's stock exchange fell sharply after the country's Securities and Exchange Commission approved draft regulations to allow easier foreign ownership of Thai stocks. Page 20

Dobson Park agrees to US takeover: Harnischfeger Industries of the US secured an agreed takeover of Dobson Park Industries, its UK rival, and pledged to create one of the world's largest mining equipment manufacturers. Page 27

Saudia to buy US aircraft: US president Bill Clinton and Saudi Arabian defence minister Prince Sultan announced details of a long-delayed $7.5bn aircraft deal between Saudia, the Saudi airline, and US manufacturers. Page 7

Congress on course to pass budget bills: The Republican leadership in Congress made several compromises and predicted passage in the House and Senate over the next 24 hours of their budget "reconciliation" bills. Page 6

Nato faces delay over new chief: Nato faced the prospect of a damaging impasse, possibly lasting several weeks, over who should succeed Willy Claes as secretary-general of the alliance. Page 3

Gazprom may buy British Gas surplus: Russian gas monopoly Gazprom may help British Gas out of its current financial bind by buying some of its surplus gas for export to Germany via a pipeline due to be opened by 1998. Page 26; Gazprom bond issue expected, Page 21

Customers' debts hit MiG engine maker: Perm Motors, which makes engines for MiG fighter aircraft and is one of Russia's biggest engineering companies, is sacking 1,000 workers after customers, including the Russian military, failed to pay bills totalling Rbs100bn ($22m). Page 2

ABB posts 61% profits rise: Electrical engineering group ABB Asea Brown Boveri reported a 61.5 per cent rise in third-quarter net income to $197m, continuing the strong growth that began last year. Page 21

Daewoo wins FSO: South Korean industrial conglomerate Daewoo succeeded in its bid to take over the Polish state-owned FSO car maker. Daewoo will invest $1.1bn in the plant. Page 7

EU controls on fishing agreed: Measures to control fishing off the western British Isles, the final step before Spain and Portugal gain greater access to the area in January, were agreed by European Union ministers. Page 2

Award for FT writer: Canute James, Caribbean correspondent of the Financial Times, won the Maria Moors Cabot prize, awarded by Columbia University, for his work in advancing inter-American understanding and press freedom in the Americas.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	4,707.07	(-46.61)
NASDAQ Composite	1,016.58	(-9.89)
Europe and Far East		
CAC40	1,754.12	(-10.0)
DAX	2,131.84	(-18.29)
FT-SE 100	3,519.6	(-18.2)
Nikkei	17,726.58	(-244.13)

US LUNCHTIME RATES

Federal Funds	5⅞%
3-mth Treas Bills: Yld	5.378%
Long Bond	107
Yield	6.344%

OTHER RATES

UK: 3-mo Interbank	6⅞	(same)
UK: 10 yr Gilt	103¾	(103⅜)
France: 10 yr OAT	102.18	(102.14)
Germany: 10 yr Bund	100.17	(100.26)
Japan: 10 yr JGB	112.964	(112.248)

NORTH SEA OIL (Argus)

Brent 15-day (Dec)	$16.30	(16.07)

GOLD

New York: Comex		
(Dec)	$384.3	(384.5)
London:		
close	$382.65	(383.0)

DOLLAR

New York: lunchtime		
£	1.58	
DM	1.39275	
FFr	4.8979	
SFr	1.133	
Y	101.35	
London:		
£	1.5741	(1.5795)
DM	1.4017	(1.3936)
FFr	4.9255	(4.8867)
SFr	1.1393	(1.1349)
Y	101.8	(101.3)

STERLING

DM	2.2063	(2.2011)
Tokyo close:	Y 101.35	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lv110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.80	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£50.00
Finland	FM15	Kuwait	Fils.625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50			Turkey	L80,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

Yeltsin in hospital after heart scare

Russian president's illness renews fears of power struggle

By Chrystia Freeland in Moscow

Russian president Boris Yeltsin was rushed to hospital yesterday afternoon after his second mild heart attack in four months, renewing doubts about his ability to rule and provoking fears of a power struggle in the Kremlin.

Mr Yeltsin's illness could also jeopardise Russia's efforts to reassert itself in international politics. He had planned to host a meeting next Tuesday of the leaders of Serbia, Croatia and Bosnia, but this may now be called off.

Kremlin officials said Mr Yeltsin's condition was not life-threatening and insisted he remained in charge of the government. But they cautioned that the 64-year-old Russian leader might not be able to return to his full duties for some time.

"The president's condition does not inspire great optimism – he will scarcely be able to return to work in the next few days," said Mr Victor Ilyushin, a senior presidential aide.

The price of Russian dollar-denominated debt and rouble futures contracts fell with news of Mr Yeltsin's illness, which broke after most markets had closed in Moscow. Brokers expect a strong reaction today.

Business people and analysts said Mr Yeltsin's condition was likely to have greater consequences than the heart problems he suffered in July. The attack follows a tour of New York and Paris which had strengthened Moscow's voice in foreign affairs and partially restored the Russian leader's image as an international statesman.

The illness also comes at a particularly precarious moment in the development of Russia's fragile democracy and market economy. In December, the country holds parliamentary elections in which Communists and nationalists, who have vowed to undo many of the reforms introduced by Mr Yeltsin's government, are expected to triumph.

Many analysts had played down the significance of a Communist victory in the parliamentary race, pointing to the overwhelming power the Russian constitution grants to the country's president. A presidential election is scheduled to be held next June, but Mr Yeltsin's illness has raised doubts about who will stand and prompted some analysts to question whether elections will be held at all.

Kremlin aides attempted to dispel fears of a succession struggle, emphasising that Mr Yeltsin continued to carry out his presidential duties from his hospital bed.

"There is no question of replacing Yeltsin," Mr Igor Ignatyev, a presidential spokesman said. "The president is in charge. There is no indication that he cannot carry out his duties."

But Mr Yeltsin's heart condition has prompted renewed speculation about the future of Mr Victor Chernomyrdin, the Russian prime minister. Under the Russian constitution, the prime minister becomes the head of state if the president dies or is incapacitated.

Earlier this year Mr Chernomyrdin appeared to have been selected as Mr Yeltsin's successor, but relations between the two soured in the autumn when a reinvigorated Mr Yeltsin made clear he was not yet ready to give up the presidency.

Sands running out for Yeltsin's political career, Page 2

Top EU official faces sack in row over VAT

By Emma Tucker in Brussels

One of the most senior European Union officials in Brussels faces the sack after a row over delays to a new value-added tax regime.

Mr Peter Wilmott, the British director-general of the customs and indirect taxation department, has written to colleagues saying it had "been decided" that he should leave his job because of "irreconcilable differences" with Mr Mario Monti, the Italian commissioner responsible for the single market.

Mr Wilmott's likely departure after 5½ years as head of the taxation department is another distraction on the tortuous path towards a VAT regime which harmonises tax collection throughout the EU.

Progress has been slow because member states are concerned that Brussels may interfere in their domestic tax affairs and because businesses oppose a hasty move from one system to another.

Mr Wilmott said the sacking move resulted from a lack of communication between himself and Mr Monti's cabinet. Mr Monti yesterday had no comment to make on the dismissal. Mr Wilmott suggested the commissioner had made impossible demands for complicated analyses of how a single VAT system would work.

The sacking of Mr Wilmott has yet to be decided by the whole Commission, but following meetings between Mr Monti and Mr Wilmott, it is almost certain that he will leave.

Companies in the EU are operating under a "transitional" regime in which VAT continues to be levied in the country where goods are consumed. This means companies have to differentiate between goods they sell at home and those they sell to other EU member states.

Under the new regime VAT would be charged in the country where goods originate, but this would have the effect of swelling the tax revenues of exporting countries at the expense of net importers. To counter this, the Commission is planning a "clearing system to reapportion revenue to member states so that each continues to receive tax revenues according to home consumption".

Mr Monti believes insufficient work has been carried out on the impact of the switch to the new regime, which has to be understood in order to construct the clearing system.

Tax experts agree the system will be very difficult to construct. "Figuring out this clearing system will be the most phenomenal task," an industry official said yesterday.

The Council of Ministers has set a date of January 1 1997, for the new regime to be in place, but it is widely acknowledged – even by Mr Monti – that this deadline will not be met.

Row tests single market, Page 3

Italian prime minister Lamberto Dini speaks in a debate on a no-confidence motion, later rejected by the lower house of parliament Report and Lex, Page 20; Editorial Comment, Page 19 *Photograph: Reuter*

Philips hit by fall in consumer electronics sales

By Ronald van de Krol in Eindhoven

Shares in Philips, the Dutch electronics group, fell by 12 per cent yesterday after third-quarter results revealed an unexpectedly sharp drop in profits in consumer electronics, the company's biggest single business.

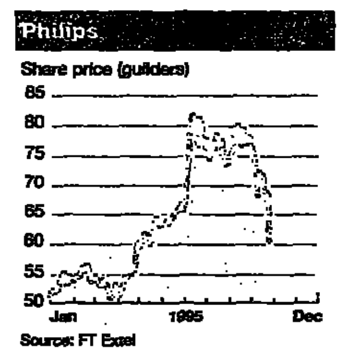
The difficulties, mainly in Europe, contrasted with better performances in most other sectors, particularly semi-conductors and components, where combined profits rose by 34 per cent.

Group net profits before extraordinary items rose by 18.5 per cent from Fl455m ($284m) to Fl539m. Analysts' forecasts had ranged widely from Fl535m to more than Fl600m.

The company had warned that growth rates of 109 per cent and 45 per cent in the first two quarters could not be sustained.

Philips' shares, driven to highs above Fl80 in the summer by intense US interest in technology stocks, sank to close down Fl8.20 at Fl60.10 in Amsterdam.

Many analysts had predicted a downturn in consumer electronics but were surprised by the extent of the decline, with operating results down from Fl114m to just Fl8m. The decline was caused chiefly by Grundig, the German consumer electronics company controlled by Philips.



Source: FT Extel

Group turnover in the third quarter rose by 8 per cent to Fl15.3bn, taking nine-month sales figures to Fl44.59bn, an increase of 5.8 per cent compared with the same period a year earlier. Sales in the first three quarters would have grown by more than 13 per cent if exchange rates had remained constant.

Philips forecast a "substantial" increase in full-year net profit before extraordinaries. In the first nine months, the figure was already up 49 per cent at Fl1.67bn.

Mr Dudley Eustace, finance director, said the strength of the guilder had cost Philips Fl700m in potential operating profit over the first nine months. "It's not an

Continued on Page 20
World stocks, Page 44

Merrill and Lazard pay out $24m over secret fee-sharing

By Maggie Urry in New York

Merrill Lynch and Lazard Frères agreed yesterday to pay a total $24m to settle civil charges brought by the US Securities and Exchange Commission over a secret fee-sharing arrangement.

The settlement, split equally between the two investment banks, is the largest ever agreed on such a case with the SEC, which also censured the firms.

About a quarter of the payment represents a penalty, and the remainder is restitution, return of fees and an administrative charge.

Mr Mark Ferber, a former Lazard partner, was yesterday indicted in Boston in connection with the case. Mr Ferber left Lazard early in 1993.

The case arose from a contract between the two firms between 1989 and 1993 under which Lazard introduced municipal authority clients to Merrill, which arranged interest rate swaps for them, designed to save them money.

In return Merrill would pass part of the fees from the swaps back to Lazard. Payments totalled "several million", Merrill said yesterday.

In cases where Lazard had not been appointed as a financial adviser by clients, the deal was within regulations. But some clients, including the District of Columbia and the Massachusetts Water Resources Agency, had appointed Lazard to that role, imposing a duty on Lazard to disclose payments it received from Merrill.

The Distict of Columbia received $3.6m compensation from the two firms last year, a figure included in the $24m total settlement, some of which will also go to the resources agency.

Part of Lazard's payment will go to two other clients, the Michigan Department of Transportation and the US Postal Service.

Yesterday's "universal" settlement covers all interested parties, including the clients and the SEC, the US attorney for Boston, and the Massachusetts attorney-general. Lawyers said the size of the fine was a deterrent and a warning to other firms to be more vigilant.

A Merrill official said it had relied on Mr Ferber's assurance that he had disclosed the arrangement to the clients. However, Merrill accepted the authorities' criticism that it should have taken steps to ensure that the clients knew.

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NEWS: EUROPE

Russia's industrial giants shed staff

By John Thornhill in Moscow

Perm Motors, one of Russia's biggest engineering plants and a flagship of its aerospace industry, is sacking 1,000 workers and moving to a three-day week after customers, including the once-mighty Russian military, failed to pay bills totalling Rbs100bn (£14m). Among other things, the company makes engines for MiG fighter aircraft, and satellite parts.

The move follows this week's announcement by the Vladimir tractor factory, hailed as a model of industrial restructuring, that it would have to dismiss 3,000 workers.

It blamed a rise in energy prices and the strength of the rouble for a drop in export profits. The Far East Shipping Company, one of Russia's biggest transport concerns, has also announced plans to trim its workforce.

Economists suggest the announcements could herald a wave of job losses as managers are faced with progressive cuts in state subsidies to companies.

Until recently, the official level of unemployment in Russia has been surprisingly low, given that industrial production has halved since 1989. Official statistics suggest it is at present 8 per cent – 5.7m out of a potential workforce of 72.8m.

The relative flexibility of the labour market has enabled many people to find jobs in the vibrant private sector and opinion polls have shown consistently that the public worries more about high inflation than job losses.

But a recent research report from the Moscow-based Centre for Economic Performance suggests that the real level of unemployment, including workers on short time, exceeds 30 per cent in as many as a fifth of Russia's regions.

It also suggests that greater labour shake-outs could follow as "managerial paternalism" may be breaking down.

Large enterprises previously kept workers on their books, even if only on short-time, to strengthen their case for more credits from central and local government.

The structure of Russia's excess wage tax also encouraged companies to keep on more workers at low pay rather than employing fewer on higher salaries.

However, fears about drastic rises in unemployment in Russia have proved unfounded before. In 1992 the International Labour Organisation predicted it would rise to 8-10 per cent by the end of that year. In the event, it only rose to half that.

The issue of unemployment and the neglect of Russia's poor is becoming an important campaign issue in the run-up to the parliamentary elections in December.

This week, President Boris Yeltsin tried to release some of the pressures by ordering the government to pay outstanding pensions and soldiers' wages. "This issue is of vital importance to millions of Russians, has critical social implications and even risks becoming a political problem, increasing tensions in the country," a presidential press statement said.

Jailings put EU-Turkey customs union at risk

By John Barham in Ankara

Turkey's supreme court yesterday cast a shadow over the country's draft agreement to form a customs union with the European Union next year when it confirmed long prison sentences against four Kurdish MPs.

The European Parliament has made ratification in December of the customs union conditional upon the freeing of the MPs.

They were sentenced last year to up to 15 years in jail for belonging to or abetting the Kurdistan Workers party (PKK), a guerrilla group that has been fighting against the army in south-eastern Turkey for the past 11 years.

Ms Pauline Green, leader of the Socialist group, the European Parliament's largest bloc, said the judgment "will be a central part of our decision-making. The chances of a customs union have certainly not improved".

Ms Green did welcome the supreme court's decision to order a retrial of four other Kurdish MPs.

However, the four will be retried in a state security court under Article 8 of Turkey's anti-terrorism law which prohibits all "separatist propaganda", rather than under the criminal code.

The justice committee of Turkey's parliament approved on Wednesday an amendment to Article 8.

This is an important concession to members of the European Parliament, who had also linked ratification to changes in the laws that restrict freedom of expression in Turkey, especially of peaceful advocates of Kurdish rights. The proposed changes also reduce prison terms and allow for suspended sentences and fines.

The European Parliament has also been angered by statements from Mr Coşkun Kirca, the foreign minister, to the effect that Turkey would not accept provisions in the draft EU-Turkey accord requiring it to recognise the Greek-controlled government of Cyprus. Turkey invaded the island in 1974 and maintains 30,000 troops in the north of the island. It is the only government to recognise the enclave as a sovereign state.

Turkish human rights campaigners welcome the European Parliament's pressure, but many consider it too narrowly focused. Turkey's Human Rights Foundation says there are 154 articles affecting freedom of expression in various codes in Turkey.

Prosecutors have begun bringing cases under Article 312 of the penal code, which forbids "provoking enmity and hatred by displaying racism or regionalism". Ms Aliza Marcus, an Istanbul-based Reuter correspondent, is being tried under this statute for her reporting of the fighting in the south-east.

The Turkish government yesterday reached agreement with public-sector union leaders, ending the country's longest strike in 15 years, writes John Barham. Some 250,000 workers will begin returning to work today after the Türk Iş union accepted a package giving them a 35 per cent pay increase for this year, backdated to January 1, and a 41 per cent rise for 1996.

Economists commented that although the settlement will worsen the budget deficit, Mrs Tansu Çiller, prime minister, had emerged strengthened from the confrontation by forcing the strikers to back down from their earlier demand for a 71 per cent increase this year. Inflation is at present running at 91 per cent.

Ending the strike will also remove a serious obstacle to the formation of a new coalition government between Mrs Çiller's conservative True Path party and the centre-left Republican People's party (CHP) which had sympathised with the strikers. Mrs Çiller will be able to claim credit for ending the strike on her terms during the forthcoming general election campaign. The government wants parliament to call an election on December 24.

Ministers agree EU fishing controls

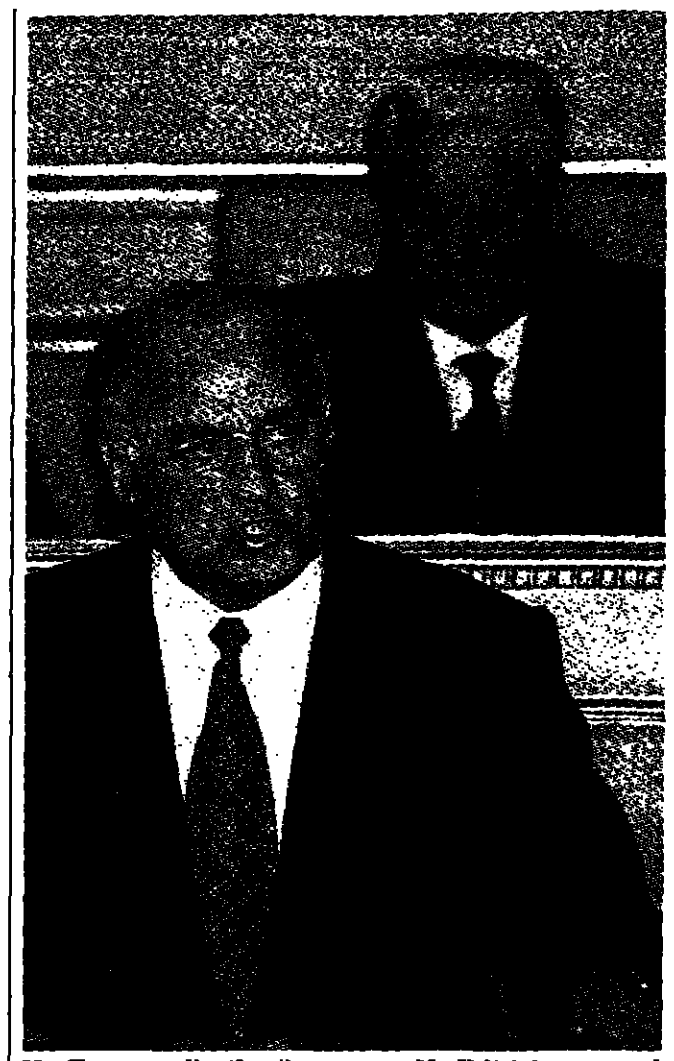
Measures yesterday to control fishing off the western British Isles – the final step before Spain and Portugal gain greater access to the area in January – were agreed by European Union ministers yesterday, Reuter reports from Luxembourg.

Unanimous agreement was needed after member states rejected proposals by Mrs Emma Bonino, the fisheries commissioner, to control fish catches. Ministers thought the controls too bureaucratic and expensive and put forward more flexible and less stringent reporting requirements.

In national waters, member states will fix their own measures, and for trips of up to 72 hours, vessels over 15 metres will only have to report their fishing plans before leaving port. Vessel log books will record catches and movements. Full reporting requirements – on entry to and exit from port and fishing zones – will only be required for fishing trips of more than 72 hours into other member states' waters.

The fishing ministers also agreed to provide Ecus24m ($31m) to compensate Spanish and Portuguese fishermen for loss of income from the closure of Moroccan fishing grounds.

The aid will benefit an estimated 8,500 fishermen in southern Spain, the Canary islands and Portugal.



Mr Chernomyrdin (front) was once Mr Yeltsin's presumed political heir. But a rift has grown between them. Reuter

Sands running out for Yeltsin's political career

The president's heart attack may end his re-election chances next year, writes Chrystia Freeland

Despite the Kremlin's efforts to play down the seriousness of President Boris Yeltsin's heart attack, Russian politicians and businessmen fear it could herald the end of his political life.

Doctors said the Russian leader was not in danger of dying and aides insisted that "the president is still in charge", but many observers warn that Mr Yeltsin's faltering heart could be beating the end of a political era.

The mild heart attack, less than four months after he was hospitalised for two weeks with a similar condition, has provoked speculation that the president may be too weak to govern his chaotic country and too physically unreliable to make an attractive candidate in presidential elections scheduled for next June.

"This illness has very serious consequences," said Mr Sergei Markov, a political analyst at the Carnegie Moscow Centre, a political think-tank. "This, his second heart attack, will seriously reduce the president's chances of being re-elected. Who will vote for a man who is seriously ill?"

In less than two months, Russian voters are scheduled to elect a new parliament. Polls suggest a landslide for Communists and ultra-nationalists, but many western observers and businessmen have argued that Mr Yeltsin, as president, would be able to protect market reforms from the legislature. After yesterday's heart attack, he seems a much less reliable bulwark.

An even greater danger, in the opinion of many, is that Mr Yeltsin's frailty could provoke a fierce battle for political power, destabilising the country and undermining its fragile political institutions.

Over the past few weeks, Mr Yeltsin had embarked on a vigorous round of domestic and foreign appearances which were widely viewed as a sign that he was willing and able to hold on to the presidency. After yesterday's heart attack, most observers are more pessimistic.

"Most people have already started to think that Yeltsin cannot serve another term and this will strengthen those doubts," says Mr Boris Jordan, president of Renaissance Capital Group, a Moscow-based investment bank. "We are entering a very unstable period."

The fears of a succession struggle are greater today than they were when Mr Yeltsin had his first heart attack in July. Then, Mr Victor Chernomyrdin, the prime minister, appeared to be the president's chosen political heir.

It was even argued that the president's illness might be good for Russia because it would speed the ascent of Mr Chernomyrdin. The prime minister's economic policies have won praise from western financial institutions and the trust of the Russian business community.

But over the past three months, a rift has appeared between Mr Yeltsin and his premier, whom the president has come to treat more like a rival than an appointed successor. This tension has inspired fears that, instead of a smooth transfer of power, Russia might be in for a protracted battle between an ailing president and hostile pretenders to the throne.

"When it happened last time [the heart attack] Chernomyrdin was riding very high," says Mr Victor Huaco, president of AICO Capital, a Moscow-based investment company. "But this time around, Mr Chernomyrdin is not seen as being as strong as he was by the markets."

Analysts say the lack of a clear successor to Mr Yeltsin could tempt Russia's ruling elites to violate the country's fragile democratic procedures to protect their power.

"Yeltsin's entourage and the new economic elite are all asking themselves who can come to power so that they retain their property and are not put in jail," says Mr Markov. The new political and economic elites feared that some of the most popular ultra-nationalist and Communist candidates "might take away their property and send them to jail. They might be tempted to try to impose a dictatorship."

EUROPEAN NEWS DIGEST

Brussels probes World Cup deal

The European Commission yesterday began legal proceedings against France over a FFr2.7bn ($550m) contract to build and run a giant soccer stadium in Saint Denis, just outside Paris, for the 1998 World Cup final. It said the awarding of the contract to the Grand Stade consortium, which includes France's Bouygues, Europe's largest construction company, might breach EU laws on public procurement.

Brussels said it had asked the French authorities for information several times, but received no "satisfactory replies". Rival companies have complained that Grand Stade received favourable treatment.

France has two months to provide the Commission with further information about the contract. If it declines, it faces legal action in the European Court. Construction is being financed 53 per cent by Grand Stade and 47 per cent by the French government. Grand Stade will have the right to run the 80,000-seater stadium after its completion, scheduled for late 1997. *AP, Brussels*

Bjerregaard to sue over diary

Mrs Ritt Bjerregaard, the EU environment commissioner, is to sue the Danish daily Politiken for reproducing without consent the controversial diary which she withdrew from publication this week. She had told her publishers to scrap the book after leaks of its contents, including unflattering descriptions of European leaders, produced a political storm. However, Politiken published it as a free 20-page supplement yesterday. "This is a severe contravention of copyright law," her spokesman said yesterday. "All future developments will be handled by Ritt Bjerregaard's lawyers."

Extracts from *The Commissioner's Diary* in Danish newspapers on Monday brought criticism even from fellow Social Democrats who said publishing such a book while still in office damaged her standing in European politics, weakened the environmental lobby and hurt Denmark's international image. *Reuter, Copenhagen*

Court move in Gal affair

Spain's supreme court decided yesterday to ask Congress to lift the parliamentary immunity of Mr José Barrionuevo, a former interior minister and the most senior figure so far to face questioning in the Gal affair over illegal counter-terrorist activities in the 1980s. The court said that the ex-minister, who has repeatedly expressed his willingness to testify, would have to answer accusations relating to possible misappropriation, illegal detention and the organisation of an armed group.

Mr Barrionuevo, a close associate of Mr Felipe González, the prime minister, and interior minister from 1982 to 1988, has been implicated by other former officials in a bungled 1983 kidnap operation in southern France.

Meanwhile, another former Socialist interior minister, Mr José Luis Corcuera, has been accused by an examining magistrate of misappropriating public funds. Mr Corcuera has admitted buying jewellery as presents for the wives of ministry colleagues, but has justified his action by saying the presents were to compensate for lost holidays and weekends. *David White, Madrid*

Aérospatiale to cut workforce

Aérospatiale, France's state-owned aerospace group, announced yesterday its intention of trying to reduce its workforce by 3,100 over 1996-97 because of reduced military business and the impact of the dollar's fall on sales. The company said it would negotiate with the unions to carry out the job cuts – falling mainly on its civil aircraft and missile divisions – by redeployments, retraining and encouraging people to retire early, rather than by straight redundancies. However, the unions have threatened strike action after being told of the plan. *David Buchan, Paris*

Estonia coalition proposed

Estonia's prime minister, Mr Tiit Vaehi, has tentatively formed a new government after his previous administration was brought down earlier this month because of a bugging scandal involving the interior minister. The new outline government links Mr Vaehi's centrist Coalition group with the left-leaning Rural Union, which opposes land reform, and the Reform group, which espouses further economic liberalisation. The delicate left-right coalition commands 55 votes in the 101-seat parliament but must still be approved by President Lennart Meri.

Mr Vaehi's previous administration collapsed when it emerged the interior minister had secretly taped ministers' conversations. The controversy may continue to run given recent press allegations that Estonia's security services sold information to the Russians. *John Thornhill, Moscow*

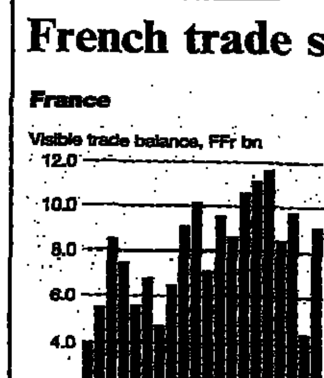
Pechiney case appeals fail

The French supreme court yesterday rejected appeals from a former finance ministry official and a Lebanese businessmen convicted of insider trading in the 1988 Pechiney affair. The Cour de Cassation upheld sentences of one year in prison, with a further year suspended, against Mr Alain Boublil, former chief aide to Mr Pierre Bérégevoy, the late Socialist prime minister, and Mr Samir Traboulsi, a businessman.

The Pechiney case was one of a series of scandals which contributed to the defeat of the Socialists in the 1993 general election. It involved insider share trading in the acquisition by the Pechiney aluminium group of American National Can of the US. Mr Boublil was convicted of tipping off Mr Roger Pelat, a businessman friend of then Socialist president, Mr François Mitterrand, about the acquisition plan. Mr Pelat died in 1989. *John Ridding, Paris*

ECONOMIC WATCH

French trade surplus soars



France had a FFr9.06bn ($1.8bn) trade surplus in August, a sharp rise over the previous month's FFr4.47bn. The official figures, released yesterday, which took the surplus for the first eight months of the year to FFr72.5bn, against FFr47.7bn in the same period in 1994, demonstrated the resilience of French exports. They also suggested that consumer campaigns against French products, prompted by President Jacques Chirac's decision to resume nuclear testing, had little impact.

Exports rose from FFr113.2bn in July to FFr118.6bn, including about FFr2.5bn from Airbus sales. The customs office said shipments of wine, one of the products most exposed to consumer protests, increased during the month. The trade surplus with European Union partners rose from FFr1.7bn in July to FFr3bn. Deficits with Japan, Germany and the US, all shrank. In terms of products, agricultural goods expanded their surplus, as did industrial and military equipment. *John Ridding, Paris*

■ West German inflation fell a provisional 0.1 per cent in October on the previous month for the second month running and remained stable at an annual 1.6 per cent.

■ Sweden's producer price index was unchanged in September from August. The monthly figure brought the annualised increase in producer prices to 9.9 per cent, down from 10.4 per cent in August.

■ Norwegian unemployment continued its downward trend in October, as the jobless rate dropped to 4.1 per cent from 4.5 per cent in September.

NEWS: EUROPE

Nato delay on new chief raises concern

By Bruce Clark, Diplomatic Correspondent

Nato yesterday faced the prospect of a damaging impasse, possibly lasting several weeks, over who should succeed Mr Willy Claes as secretary-general of the alliance.

The continuing deadlock raised the possibility that Nato will have to start deploying a peace implementation force (Ifor) in Bosnia – in by far the largest military operation it has ever mounted – with its top political post unfilled.

Nato's military commanders are keen to start deploying the force, which could number up to 60,000, as soon as any agreement is reached in the Balkan peace talks which begin in Dayton, Ohio, next week.

But officials at Nato headquarters said there was a growing sense in several member states, including the US and France, that the alliance should take time to find the right person rather than act with undue haste.

This could mean waiting till December 5, when alliance foreign ministers convene in Brussels, before appointing a successor to Mr Claes, who was forced to resign after being named in a Belgian corruption scandal.

Sir Leon Brittan, the European Union trade commissioner, was floated as a possible candidate by his native Britain but diplomats said his name was likely to raise eyebrows in several European capitals, notably Rome. The UK commissioner, whose formidable intellect has aroused admiration and envy among his European colleagues, is remembered in Rome as a tough opponent of state aid to the Italian steel industry.

"He has been against Italy at every turn," said one Rome-based official. "But on the other hand, any British candidate is bound to be strong because London plays such a prominent role in the alliance."

French officials said Germany's Chancellor Helmut Kohl and President Jacques Chirac of France had reached an understanding on the issue when they conferred on Wednesday night.

The officials declined to elaborate, but they hinted that the candidate favoured by Paris and Bonn was not one of those already named – Mr Uffe Ellemann-Jensen, the former Danish foreign minister, and Mr Ruud Lubbers, ex-prime minister of the Netherlands. Germany has reservations, albeit not insurmountable ones, about Mr Lubbers.

The French for their part opposes the Danish candidate on the grounds that he does not speak fluent French and his country does not belong to the Western European Union, the EU's embryonic defence club.

"If France and Germany have a candidate, their best tactic is to put that person forward as a compromise at the last moment," said one well-informed observer.

Berlusconi is robbed in the last minute

By Robert Graham in Rome

Once again it has been a case of a few hours being light years in Italian politics.

Yesterday, at the beginning of the final day of the no-confidence debate against the government of Mr Lamberto Dini, the outcome still hung in the balance. But by the time the prime minister rose to speak in the chamber of deputies at 12.30 it was all over bar the shouting.

He knew his eight-month-old government would survive the vote because a last-minute deal had been stitched together with the 24 deputies of Reconstructed Communism (RC), heirs of the hardline of the old Italian Communist party. In return for Mr Dini promising to resign by the end of the year, RC agreed to walk out of the chamber during the counting of the vote.

This tactic deprived the right-wing alliance, headed by media magnate turned politician Mr Silvio Berlusconi of the necessary numbers. With RC support, the Berlusconi camp could have mustered 316 votes against a prospective 309 for the government, backed by the parties of the centre right.

Ever since Mr Fausto Bertinotti, the RC leader, agreed last Friday to cross the ideological divide and back the right-wing alliance's no confidence motion to topple the government, he has been under pressure from the centre-left to repent. Mr Dini however is understood to have personally contacted Mr Bertinotti early yesterday morning to broker a pact to save the government.

News of the pact circulated moments before Mr Dini's speech, but only confirmed when the prime minister spelled out he would resign once the 1996 budget was approved, along with a new law guaranteeing fair media coverage during elections.

Mr Bertinotti then rose on cue to to say in so many words: if the prime minister will confirm his intention to resign by the end of the year (the last date for the approval of the budget) then RC will not vote to bring down the government.

Throughout yesterday's drama, Mr Berlusconi looked on with the grim anxiety of a football coach seeing his team robbed of victory at the last minute by a dishonest referee. The move to bring down the government was his idea after the senate voted last Thursday against Mr Filippo Mancuso, the justice minister, in a no-confidence motion.

However, Mr Berlusconi could draw some satisfaction from the fact that he forced a long-needed debate on the future of the Dini government, the first ever in Italy composed entirely of non-parliamentarians.

Mr Dini has been obliged to demonstrate that he depends upon a clear segment of the political spectrum to govern. This makes him much more vulnerable from now on.

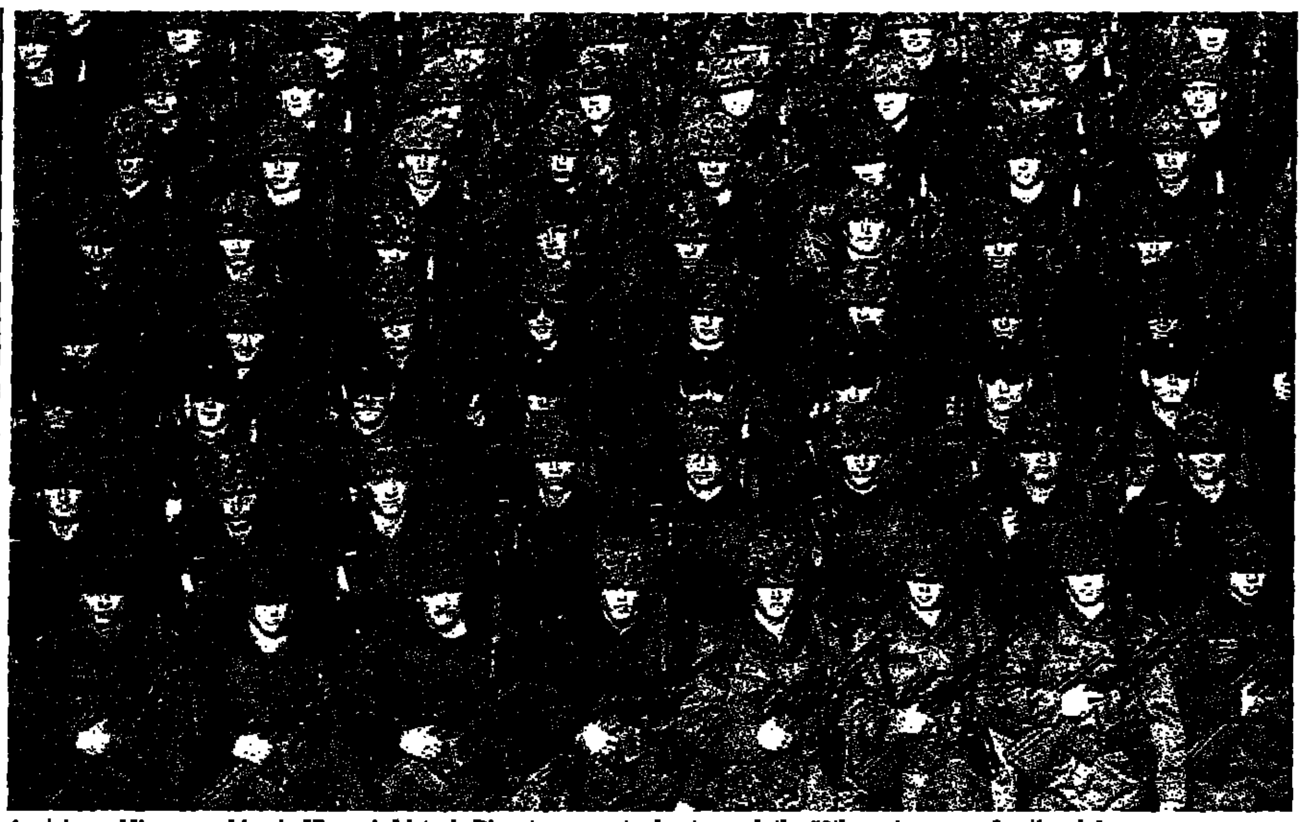
Mr Berlusconi has been campaigning for early elections since the beginning of the year.

Although the small centre parties will now try to stall elections at least until the Italian presidency of the EU ends in June, this will be hard to achieve.

Elections now look likely by March at the latest, probably while Mr Berlusconi is standing trial on charges of corruption alleged to have been committed while running his Fininvest business empire.

The forthcoming battle over the budget, promised yesterday in the toughest terms by Mr Gianfranco Fini, leader of the rightist National Alliance, will severely test the government; and RC could yet again seek to team up with its theoretical enemies.

Mr Dini also has yet to defuse the tensions created by the removal of his justice minister. A good part of Mr Dini's speech yesterday was a defence of the sacking of Mr Mancuso. Mr Mancuso has challenged his removal in the constitutional court.



Austrian soldiers marching in Vienna's historic Ringstrasse yesterday to mark the 50th anniversary of national day Reuter

Controversy over military parade in Vienna

Chancellor Franz Vranitzky of Austria did an about-face yesterday and joined the rest of the government to watch a controversial military march-past in Vienna marking the 50th anniversary of the country's post-war national day, Reuter reports from Vienna .

The embattled Social Democrat chancellor had opposed the military spectacle and refused to join other VIPs for the march-past but caused great surprise by turning up. An estimated 250,000 spectators lined Vienna's main Ringstrasse boulevard in one of the biggest military parades in Austria for years.

President Thomas Klestil, addressing the crowd from the town hall, said Austria, which joined the European Union in January, had a great interest in a common European security. "But at this point a common European flag is more a sign of hope than reality. In the next few years, nobody will guarantee our freedom and security, but us. Nobody protects our borders but us," he said. Mr Klestil was joined by Mr Vranitzky and his estranged conservative coalition partner, Mr Wolfgang Schüssel, the foreign minister. Mr Vranitzky blames Mr Schüssel for bringing down the government.

An election has been called for December 17. Mr Jörg Haider, leader of the far-right Freedom party, which has seen its support grow, took his place on the official podium alongside former President Kurt Waldheim.

German budget boycott planned

By Judy Dempsey in Bonn

Germany's opposition parties, led by the Social Democrats (SPD), yesterday boycotted the parliamentary budget committee and vowed to block passage of next year's budget in the Bundesrat, or upper house where they hold the majority.

The decision to boycott the second day of hearings highlighted the SPD's disapproval of the 1996 budget proposals and attempts by Mr Theo Waigel, the finance minister, to explain how he was going to keep the net borrowing under DM60bn ($43bn) in spite of a revenue shortfall of DM19.8bn.

The boycott, unprecedented in Germany's post war history, was made after the SPD accused Mr Waigel of arrogance in the way he presented a one-page explanation to the committee on Wednesday – and later parliament – of how the shortfall would be met.

He said proceeds from privatisation receipts and other savings would bridge the gap caused by lower than expected tax revenues and an increase in unemployment benefits.

The row is likely to galvanise opposition in the Bundesrat if and when the draft budget passes through two more readings in the Bundestag, the lower house, where the government holds a 10-seat majority.

Mr Rudolf Scharping, SPD leader who is trying to reassert authority over the party and stem its decline in the opinion polls, said yesterday: "As state premier I would have fired a finance minister who presented such a draft [budget]."

But Mr Adolf Roth and Mr Wolfgang Weng, budget experts for the ruling Christian Democrats and liberal Free Democrats respectively, dismissed the boycott, saying it was an attempt to deflect from the SPD's internal divisions. "The SPD behaviour has been revealed as a tactical manoeuvre meant to distract from the inner-party disputes over issues and personnel," they said in a statement.

The boycott by the combined opposition of SPD, Greens and Party of Democratic Socialism (PDS), robs the government of a crucial opportunity to seek consensus for next year's budget before it is debated in the Bundestag in early November.

VAT row tests single market to the limit

By Jim Kelly in London and Emma Tucker in Brussels

The row over VAT arrangements in the European Union that this week led to the sacking of a senior Commission official, revolves around one of the most complicated and sensitive issues still facing member states as they strive to complete the border-free internal market.

Indeed, Mr Peter Wilmott, the sacked director general of the Commission's taxation department, was involved in one of the most ambitious taxation projects in the world as Brussels has set the eventual harmonisation of VAT as its goal

Progress to that goal has been slow and tortuous and a deadline of January 1 1997 for the new regime is almost universally acknowledged to be impossible to meet.

Meanwhile, the EU is using a "transitional system" of VAT, a half-way house between the old regime or "destination system" and the much-vaunted definitive regime or "origin system". In the origin system, designed for a highly developed single market, the VAT is applied in the country in which the service or goods originate. Under the destination system, VAT is applied where the services or goods are consumed.

The current transitional system is a combination of both the other systems and was needed after January 1 1993 when border controls for goods were abolished between the member states. Under the system, individuals follow the origin system, but businesses keep to the destination system and VAT continues to be charged according to where a product is consumed.

The problem with the origin system is that it favours countries who export. These would see a rise in revenues as VAT would be collected for all goods originating in their territory. Importers would conversely see a drop in revenues. "The big problem with the origin system is that it changes the flow of revenue to the different member states and the question was – how do you adjust those flows afterwards," said Mr Richard Watson, head of indirect tax at accountants Price Waterhouse.

The answer to that question was supposed to be a "central clearing house". This would be an EU institution designed to re-allocate revenues from VAT to the member states. Another problem was putting forward reliable forecasts of what the origin system would do to the current tax revenue patterns within the EU.

The problem underlying the difficulty of designing the central clearing house is the different rates of VAT applicable within the EU.

The problem becomes clear if a single transaction is taken as an example. Under the origin system imagine a British manufacturer buying a French computer for FFr100m (£13m) plus VAT of 20.6 per cent. The VAT would flow to the French exchequer. Meanwhile, the manufacturer would try and reclaim all the VAT from the UK government. The problem is that UK VAT is just 17.5 per cent.

In this case the UK government would be the loser because of the difference in VAT rates. The clearing house needed a mechanism to redistribute the revenue to the UK. Finding this mechanism was always going to be an obstacle to the success of the scheme. Brussels at first considered a system which totalled individual transactions, but has recently favoured a macroeconomic approach.

Another problem about driving the reform forward is that many businesses are happy with the current system. Mr George Michie, head of indirect tax at KPMG, said: "Broadly the transitional system is seen to be working – there is some concern over the administrative burden but that is not insurmountable. The last thing business wants is another upheaval."

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World Bank warns Ukraine on loans

By Matthew Kaminski in Kiev

The World Bank has warned Ukraine it will withdraw loans and export guarantees worth $720m this year, unless Kiev restores 4,270 food and food handling and processing companies to its privatisation list.

The agri-industrial sector has been removed from the privatisation list by the Kiev parliament. The sector involves over half the companies on the list and is crucial in an economy which produced about half the former Soviet Union's grain consumption.

The parliament is proposing that the companies which supply agro-industrial businesses, mostly collective farms, will be given a free 51 per cent stake. Workers at the plants will be allowed to buy the rest in a closed auction with vouchers issued to them free of charge.

The plan, endorsed by a strong lobby of collective farm and agro-industrial directors, undercuts the attempt, endorsed by the World Bank, to break up vertical supply monopolies.

If the plan is implemented, the World Bank would "face significant difficulties" in supporting Ukrainian reform, a Bank director says in a letter to Mr Ihor Metiukov, a deputy prime minister for international financial relations.

Kiev's reluctance to break up collective farms, free trade and prices, and end state contracts has helped depress output. The last grain harvest was the lowest for a decade.

The law "could seriously damage the prospects for rapid and equitable privatisation" and fails to balance "fairly the interests of farm suppliers, employees and the general population," the letter says. The loans were approved on the understanding that the privatisation programme would be speeded up. Only a few companies have been privatised, far short of the 8,000 planned for the year. The bank had urged President Leonid Kuchma, on a tour of South America, to veto the legislation. But Mr Oleksandr Moroz, the Socialist chairman of parliament, said the time allowable under Ukraine's "mini-constitution" for a presidential veto, which Mr Kuchma has not yet used, had passed.

Mr Moroz leads resistance to Ukraine's market reform programme in parliament, whose recent assertiveness helped widen the 1995 budget deficit and endanger Ukraine's $1.8bn International Monetary Fund stand-by programme under review this week.

The chairman, a fierce opponent of land reform, said the scheme would allow producers and suppliers to co-ordinate their activities better. Critics say it will inflate domestic prices, cut off investment and slow the agricultural recovery. "This essentially makes a sham of privatisation and reinforces the old command structures," a diplomat said. "It means the processing industry doesn't have to reform".

Ukraine's agro-industry and farming are viewed by many as the backbone of a future private sector in the former Soviet Union's breadbasket.

Economists say the government's reluctance to break up collectives quickly, free domestic trade and prices, and end state contracts for products has helped depress output; last year's grain harvest was the lowest for a decade.

Foreign agricultural companies trying to break into the Ukrainian market and already frustrated by conservative farm policies, criticised parliament's proposal. "Now greenfield investment would seem to be the only logical alternative," said Mr Pat Bracken, country manager for Cargill, the US concern which recently built a seed treatment plant in eastern Ukraine. "This law seems very self-serving".

NEWS: ASIA-PACIFIC

'Japan premium' hurts bank profits

By Gerard Baker in Tokyo

It must rank as one of the more curious ironies of modern economics that Japanese banks find themselves forced to pay a substantial premium for the privilege of borrowing in international money markets.

Japan is the world's largest creditor nation, with more than $600bn in net assets around the world. Its citizens possess the largest pool of savings of any country. And its banks, custodians of much of those savings, are of course, the largest on earth.

But as international investors continue to take fright about the scale of the country's financial problems, banks find themselves forced to borrow at rates that would shame some of the poorest of the world's less developed countries.

For all the Alice-in-Wonderland quality of the so-called "Japan premium", it continues to hurt the country's banks.

The premium appeared in mid-August, as concerns about the health of Japanese banks intensified. Following the collapse of two small banks in August and the revelations of the $1.1bn debacle at Daiwa last month, it rose sharply.

Even for the strongest institutions the extra cost of borrowing short-term US dollar funds is now about 0.5 percentage points – they pay 0.5 percentage points over London interbank offered rates (Libor).

For the less familiar banks, or those with obvious problems, such as Daiwa, the premium has hit 1 percentage point in the past week.

Those figures do not sound unduly daunting. But Japanese banks borrow hundreds of billions of dollars a year in overseas markets, and even relatively small interest rate changes can have a harmful effect on their profitability.

Banks are meeting some of the extra cost by the use of interest rate swaps – selling yen and buying dollars in the cash market, and buying yen and selling dollars in the forward market. But the interest rate differential between US and Japanese money is so high that the gain is marginal. Most of the premium feeds directly into banks' funding costs.

Estimates by Mr Yoshinobu Yamada, analyst at Merrill Lynch Tokyo, suggest that for each of the six large commercial banks, a premium of 0.15 percentage points would cost about Y4bn-Y5bn ($39m-$49m) if it stayed for the last five months of this financial year.

That suggests that if the current premium of 0.5 percentage points were to stay, the cost would be about Y15bn for the average leading bank. That figure compares with an estimated average Y1,500bn in operating profit the leading banks are expected to report for the six months to the end of September – barely a blip.

But it is not the big banks that are most threatened. Smaller and weaker banks are having to pay a premium of up to 1 percentage point. For a bank such as Nippon Credit Bank, one of the most troubled, that figure could translate into costs as high as Y5bn, or close to 10 per cent of its expected operating profit. If that level of premium remains, the effect on earnings of the weaker banks could be much more substantial. Some of those banks are being denied extensions of credit lines in international markets – a development that could precipitate a genuine funding crisis.

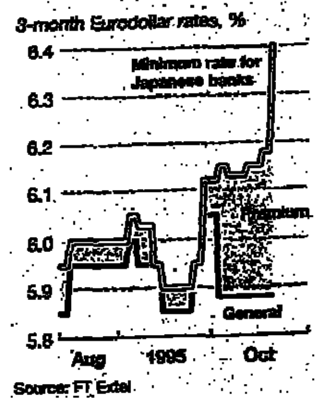
Furthermore there could be a significant longer-term effect as banks are forced to retrench. In the past five years Japanese lenders' overseas assets have grown substantially, as they have sought to compensate for the sluggishness in the domestic lending market. In the process they have cut the rates at which they lend in overseas markets to the bare minimum.

Prime borrowers can now get funds at less than 0.3 percentage points over Libor. Japanese banks may not be able to provide that sort of funding. Ms Mineko Sasaki-Smith, economist at Morgan Stanley in Tokyo, says: "Foreign banks are encroaching on Japanese banks' overseas business, threatening their viability."

Mr Eddie George, governor of the Bank of England, yesterday tried to play down international fears about the scale of Japan's financial problems, writes Gerard Baker. Financial markets had exaggerated the nature of the difficulties, he said, expressing confidence that the "Japan premium", the extra cost of borrowing charged to the country's banks, would gradually disappear. Mr George, on an official visit to Tokyo, said the authorities were handling the difficulties effectively. Problems at the country's smaller financial institutions had led to a misreading of the difficulties for the system as a whole. But Japan should be more transparent and forthcoming in explaining its problems.

■ Daiwa Bank will be punished for its failure to disclose US bond-trading losses, Mr Yasuo Matsushita, governor of the Bank of Japan, said yesterday: "The Bank of Japan will take necessary steps, including punishment of the bank, based on the results of the central bank's special investigation."

Japan premium



Source: FT Extel

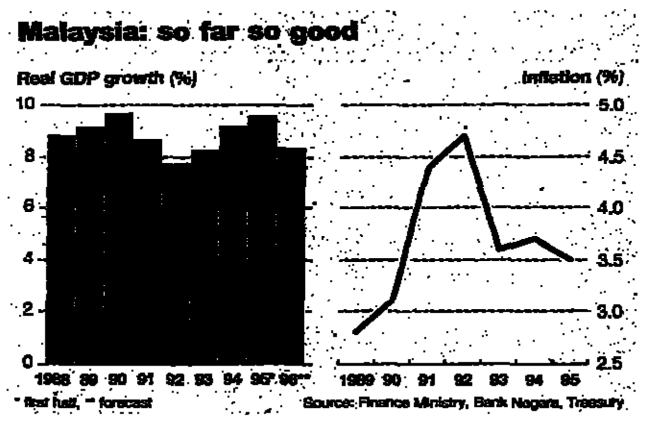
Malaysia's giddy growth rate prompts alarm

Malaysia has become used to life in the fast lane, with economic growth rates most other countries can only dream of. Today Mr Anwar Ibrahim, the deputy prime minister and minister of finance, announces next year's budget, and will highlight some of the economic achievements of recent years.

Since 1988 the economy has expanded by more than 7.5 per cent each year. Growth this year is expected to be 9.5 per cent. Over the past eight years per capita incomes have doubled to nearly $4,000 (£2,540) a year. Signs of progress are everywhere. New buildings are going up on virtually every spare plot of urban land. Car sales increased by more than 50 per cent in the first six months of this year.

But amid all the euphoria, local and foreign analysts will be watching anxiously to see whether Mr Anwar announces measures to cool an economy which many feel is in serious danger of overheating. "The government's willingness to tackle some fundamental economic difficulties is at stake," says a fund manager based in Kuala Lumpur. "But the betting is that the 'go for growth' brigade will still win the day."

Malaysia: so far so good



* first half, ** forecast
Source: Finance Ministry, Bank Negara, Treasury

Malaysia's main problem is a rapidly expanding current account deficit. In 1994, the deficit was M$11.6bn (£2.9bn) or 6.6 per cent of gross domestic product. This year there are forecasts the deficit could amount to M$18bn, or nearly 10 per cent of GDP, considered a dangerously high figure by several local and foreign economists. The deficit is also much bigger than earlier projections: at the beginning of the year Bank Negara, the central bank, forecast the deficit would be less than M$14bn.

While a large proportion of the deficit is accounted for by capital flows and services costs such as insurance and shipping, the trade deficit has also widened substantially – from M$0.7bn in the first seven months of 1994 to M$6.9bn in the same period this year.

The government says there is no cause for alarm. "The problem we face is the problem of success," says Mr Anwar. Much of the trade deficit is accounted for by so-called lumpy items such as aircraft.

Dr Mahathir Mohamad, the prime minister, is determined to turn Malaysia into a fully industrialised country by the year 2020. Dr Mahathir wants high growth and speedy implementation of a wide range of projects. In the next five years alone about $25bn is due to be spent on infrastructure projects, including a new international airport, a giant hydro-electric scheme and a new administrative centre.

Government critics say some projects cater more to Dr Mahathir's vanity than to real economic needs and put severe strain on financial resources. But government planners insist Malaysia is not going the way of Mexico. The deficit is not being financed by short-term borrowings but long-term capital inflows from abroad. Unlike Mexico, Malaysia has a high domestic savings rate.

However, economists warn that to depend on capital inflows from abroad and not act to narrow the deficit could have serious consequences. The situation is clearly viewed with alarm by many foreign investors. This year they have stayed well away from the Kuala Lumpur stock market, traditionally one of the region's top performers.

The import of consumer goods and overall consumer spending are rising fast. The streets of Kuala Lumpur are jammed with Mercedes-Benz and BMW cars, driven by the country's newly wealthy. This is in spite of import duties of as much as 200 per cent on many imported vehicles.

Some observers warn that a bubble is about to burst in the overheated property sector, where prices for some housing have gone up by more than 40 per cent in the past year.

Bank Negara has repeatedly called for bank restraint in lending; however, this has continued to soar, with consumption credit up more than 30 per cent over the last year. The government has put on the brakes in some areas. Earlier this month Bank Negara imposed limited curbs on car and property credit. Interest rates have been allowed to rise.

In the longer term there are worries about Malaysia retaining its competitiveness. Unemployment has fallen below 3 per cent and wages are rising fast – by between 10 and 15 per cent over the past year.

Malaysia is trying to move up the technological ladder away from labour intensive industries. But it is likely to be some years before it has the skills to rise into the ranks of the Asian "tigers". In the meantime, it is facing growing competition from more low-cost producers such as Indonesia, Vietnam and China.

So far, the government has kept the lid on inflation at about 3.5 per cent – a considerable achievement in an economy moving so fast. But there is a suspicion official figures do not reflect the build-up of inflationary pressures.

Malaysians have high expectations. After eight years of fast growth, any slowing of the economy could spread alarm. It would also pose political problems for Dr Mahathir's administration. Today's budget may not be as expansionary as in past years but few expect Mr Anwar will want to pull out of the fast lane.

Kieran Cooke

ASIA-PACIFIC NEWS DIGEST

Thai rate of growth slows

Economic growth in Thailand slowed for the second successive month in September, a sign that the government's policy of high interest rates is beginning to achieve its goal of cooling the economy. Growth in industrial output during September was 7 per cent over the same period a year earlier, compared with 8.1 per cent in August and 11.1 per cent in July. Private investment also slowed to year-on-year growth of 15.5 per cent, compared with 16 per cent in August and 17.4 per cent in July.

The trade deficit narrowed to Bt17bn ($678m) in September from Bt31bn in August. The current account deficit for August, the latest month for which figures are available, was Bt30bn, down from Bt37.7bn in July. Foreign reserves rose to a record $35.9bn. *Ted Bardacke, Bangkok*

Tamil separatists attack villages

Tamil separatist rebels attacked two Sinhalese villages in north-east Sri Lanka yesterday, shooting and hacking to death at least 24 villagers, the military said. It was the fifth attack of its kind since Saturday. The military said the rebels were trying to divert attention from a government offensive to capture their northern stronghold, the city of Jaffna. The nine-day old offensive had claimed the lives of 127 soldiers and more than 500 rebels, the military said. More than 310 soldiers and 1,500 rebels had been wounded. *AP, Colombo*

Australian republic plan 'flawed'

Australia's Governor-General Bill Hayden has denounced as flawed with serious pitfalls plans to declare the nation a republic and said he finds Queen Elizabeth, whom he represents, a consoling figure. Mr Hayden, once a staunch republican, said of the Queen: "I find her a consoling figure. I can talk to her in correspondence in a way that I can't speak to anyone else." Mr Hayden from 1983 to 1988 was foreign minister in the Labor government, which under Prime Minister Paul Keating is pressing ahead with its aim of ending formal ties with Britain by the end of 2000. Opinion polls show most people would prefer Australia to have a president and become a republic. *Reuter, Canberra*

■ Australia has had its highest annual wages growth for almost five years. September quarter average weekly earnings grew 1.2 per cent, lifting the growth rate to 5.3 per cent, according to figures released yesterday. *Bruce Jacques, Sydney*

China-Malaysia Spratly accord

China and Malaysia had reached an understanding, and rival claims to the Spratly Islands would not undermine their relations, Mr Ahmad Kamil Jaafar, secretary-general of Malaysia's foreign ministry, said yesterday. "Both countries will look into the matter in a positive manner and also take into account other claimants to the same area," he said, after a meeting between officials of the two countries' foreign ministries. Vietnam, the Philippines, Taiwan and Brunei also claim some or all of the Spratly Islands, in the South China Sea. *AP, Kuala Lumpur*

■ Vietnam's year-on-year inflation rate reached 15.6 per cent in October, up 0.1 per cent on the previous month, according to the government statistics office yesterday. Inflation in 1994 stood at 14.4 per cent. Cumulative inflation of 12.3 per cent for the first ten months of 1995 has already exceeded a government target of around 10 per cent for the whole year. *Reuter, Hanoi*

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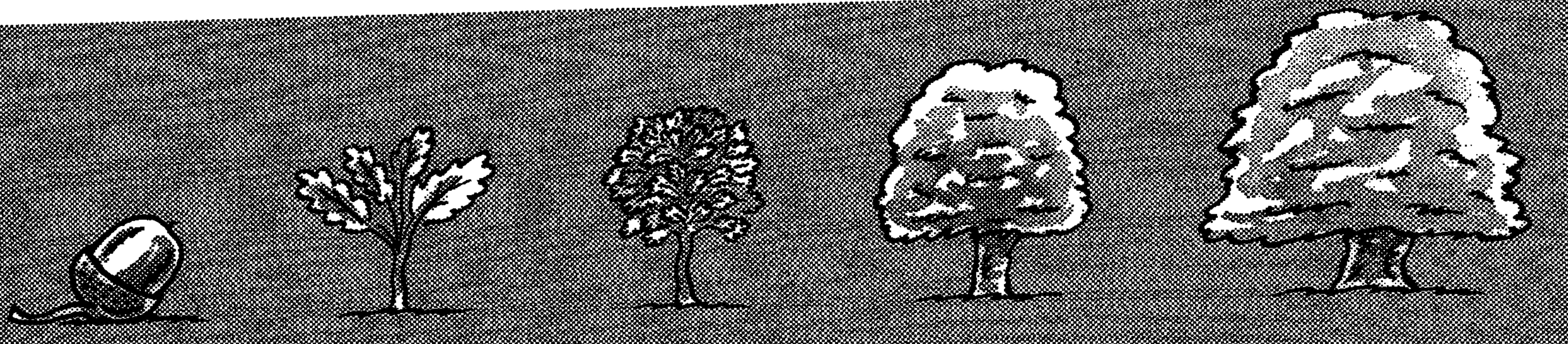

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Daewoo to take over FSO of Poland

Daewoo, the South Korean industrial conglomerate, yesterday succeeded in its bid to take over the Polish state-owned FSO car maker, Christopher Bobinski writes from Warsaw.

Daewoo will invest $1.1bn in the plant over the next six years, in one of the largest foreign investment projects in the country to date.

The agreement, to be signed on November 14 in Warsaw, will make Daewoo the second largest car maker in Poland after Fiat of Italy, which makes its Cinquecento model at Bielsko Biala in the south.

It will also force Opel, the General Motors subsidiary which has a small joint venture with FSO assembling its Astra model for the local market, to reconsider its position in Poland. GM was Daewoo's main rival in the FSO deal.

Opel has responded to the challenge from Daewoo by announcing it is considering the construction of a DM400m ($288m) factory on a greenfield site producing 100,000 cars a year, to come on stream in 1998.

Yesterday Mr Kim Woo-Choong, Daewoo's chief executive, left Warsaw after overseeing the final stages of the negotiations, which centred on valuing FSO's existing assets and included talks with the plant's unions on employment guarantees.

A communiqué from the Industry Ministry yesterday said: "The essential negotiations have now been completed."

The Daewoo agreement envisages the production of 220,000 cars a year at FSO by 2001, beginning with the assembly of the Espero model next year.

FSO's existing Polonez car will be phased out by 1999 and replaced by two new Daewoo models which will first be assembled from semi knocked-down kits (SKD) and moving later to complete assembly (CKD).

The local content of cars is to reach between 60 per cent and 80 per cent depending on the model.

Under the agreement, Daewoo will take a 70 per cent share in the proposed joint venture, the plant's 20,000 employees will receive a 15 per cent equity share, and the government will retain the remaining 15 per cent, including a "golden share" permitting it to ensure that Daewoo abides by its investment promises.

The workforce has also been given full employment guarantees for three years and Daewoo has agreed to abide by the existing collective wage agreement at FSO.

Mr Tadeusz Soroka, the chief Polish negotiator, said yesterday that Mr Kim Woo-Choong's presence had been crucial to the success of the talks. "He had set his sights on locating his operation in Poland and he appears to be bringing FSO up to scratch as a personal challenge," he said.

Last year 370,000 passenger cars were sold in Poland, 200,000 of them locally made and 170,000 imported. Some 49 per cent of Polish households own a car.

Korean group leads Asian assault on European truck market

John Griffiths reports on the latest move in an aggressive expansion programme

Daewoo, the South Korean industrial conglomerate already expanding aggressively into European car manufacturing, is planning the first assault by an east Asian vehicle maker on all sectors of western Europe's commercial vehicle markets, including heavy trucks.

It intends to launch a range of Korean-built trucks, up to and including tractor units for heavy haulage, starting in 1997. This will complement its moves to make cars, lighter trucks and vans in Europe, already set in progress by the purchase of Czech and Polish commercial vehicle makers.

The announcement this week that Daewoo is to spend about $250m on taking a 65 per cent stake and the further development of the facilities of Steyr-Daimler-Puch, the troubled Austrian engineering group, is in part another step in the strategy – although there are other things about Steyr attractive to Daewoo, including arms manufacturing.

Steyr has advanced diesel engine technology and substantial engine and transmission production capacity of potential value to all Daewoo's motor industry expansion plans. Only last month Daewoo signed a letter of intent with MAN, the German truck and engines group, jointly to produce 80,000 diesel engines annually from 1998.

The larger Korean-built vehicles will be sourced from a new manufacturing facility coming on stream at Kunsan, south of the capital, Seoul, which will have an eventual capacity of more than 200,000 commercial vehicles a year.

Evidence of Daewoo's international approach, however, is that the cab and other key feature of the trucks have been designed under contract by the UK-based engineering consultancy, Hawtal Whiting. Details of the project were disclosed by the journal Truck and confirmed by Daewoo officials.

Initial target export areas for the Korean-built trucks are other fast growing countries in East Asia. However, it is intended that these will be quickly followed by eastern Europe, notably Romania, Kazakhstan, Uzbekistan, Poland and the Czech Republic.

West European markets are expected to follow before the end of the decade. Daewoo Heavy Industries, responsible for much of the group's truck operations, has already asked sales subsidiaries in western Europe to start assessing potential volumes for commercial vehicles.

Since the beginning of this year Daewoo has acquired majority control of three east European vehicle makers. Although most attention has focused on their car-making potential, two are van and truck producers whose output Daewoo intends to expand.

These are light truck maker Avia in the Czech Republic and van producer FS Lublin in Poland. According to Mr Ko Ju-Yung, director of Daewoo's Prague office, the group plans to triple production of Avia's current range of light trucks and heavy vans from 4,000 this year to about 12,000 a year by 1997. At Lublin, Daewoo plans to increase van output from 9,000 at present to 40,000 as part of a $340m investment package including assembly of 50,000 Nexia cars a year.

With distribution infrastructures for cars, vans and lighter trucks falling into place in Europe, adding networks for the medium to heavyweight Korean-built trucks to create an integrated commercial vehicle product on offer throughout Europe appears a relatively modest venture within Daewoo's aggressive expansion strategies.

Despite its international truck market aspirations, Daewoo is only the third largest player in the Korean domestic market, behind Hundai and Asia Motors.

These latest moves lend further emphasis to the ambition of Mr Kim Woo-choong, Daewoo's founder and chairman, to make the group one of the world's top 10 motor industry competitors in the next decade. Mr Kim, having already developed the group's shipbuilding and electronics businesses into leading enterprises, sees the motor industry as the third main activity for what is now Korea's fourth largest industrial conglomerate.

Daewoo's European commercial vehicle market moves are likely to be regarded with some annoyance by Japanese vehicle makers, still abiding by agreements with west European nations and the European Commission not to seek to enter markets for trucks over 3.5 tonnes. Hitherto the sole exception has been a small-scale assembly venture involving Hino construction trucks in the Irish Republic.

Another big Korean corporation, Samsung, is also known to have undertaken truck prototype testing in the UK, although so far there has been little indication of its commercial intentions towards Europe's truck market.

Daewoo's main commercial vehicle ventures

Venture/location	Daewoo stake	Planned investment	Production capacity	Date
Kunsan, South Korea	100%	—	204,000 vans and trucks all sizes	By 1999
FS Lublin (Poland)	61%	$350m	40,000 vans, +50,000 cars	By 1996
Avia (Czech Rep.)	50.2%	$200m	12,000 light trucks,heavy vans	By 1997
Steyr-Daimler -Puch, Austria	65%	$250m	diesel engine, transmission	Ongoing
MAN, Germany	collaboration		80,000 diesel engines	By 1998
Daewoo/govt of Uzbekistan	50%	$600m	200,000 cars, light vans	1996-2000

Source: Company reports

Indonesia, Taiwan in LNG deal

By Manuela Saragosa in Jakarta

Indonesia's state-owned oil and gas company, Pertamina, yesterday signed a $6bn, 20-year liquefied natural gas supply contract with Taiwan's Chinese Petroleum Corporation, reaffirming Indonesia's leading role in the LNG market.

The contract in effect extends a previous long-term contract with Taiwan, which ends in 2010, and will more than double Taiwan's LNG imports from Indonesia.

Under the agreement, Pertamina will supply CPC with about 1.84m tonnes of LNG a year for 20 years, starting in January 1998. The contract will be supported by "significant gas reserves discovered recently in East Kalimantan by Total, Vico and Unocal", Pertamina said in a statement.

The long-term contract, the latest in a series signed for gas supplies sourced from the company's Bontang LNG plant in East Kalimantan, "will further secure Indonesia's position as the world's largest supplier of LNG into the 21st century," the company added.

Pertamina has already secured three supply contracts for the Bontang LNG plant this year.

In August it signed a $3.34bn, 20-year supply contract with Korean Gas Corporation of South Korea, and two further long-term contracts with Japanese buyers to supply a total of $20.3bn of LNG from Bontang.

These and the latest CPC contract are likely to ensure LNG remains Indonesia's largest single foreign-exchange earner, while Pertamina continues to look for buyers from the giant Natuna natural gas field, the largest undeveloped hydrocarbon resource in South-East Asia, which is being developed jointly with the US energy group Exxon.

While the Bontang long-term supply contracts are likely to secure Indonesia's position as a leader in LNG exports over the next 20 years, development of Natuna is necessary to ensure that Indonesia keeps that position in the long term. The importance of LNG sales to the country's balance of payments has grown as the production of oil has declined.

Pertamina is looking for an additional partner to join the Natuna project to ease its financial burden. Natuna is scheduled to come on stream between 2000 and 2010.

An eighth liquefaction train, known as Train H, will be constructed for 1999 at the Bontang plant to meet Pertamina's supply requirements under the CPC contract. As a result, capacity at the plant, which came on stream in January 1994, will rise to 21m tonnes a year, making it the world's largest.

Saudia buys $7.5bn US aircraft

By Afshin Molavi in Washington and Michael Skapinker in London

US President Bill Clinton and Prince Sultan, Saudi Arabian defence minister, yesterday announced details of the long-delayed $7.5bn aircraft deal between Saudia, the Saudi airline, and US manufacturers.

The deal, which was widely seen as Saudi thanks for US military action during the Gulf war, awarded the order for all 61 aircraft to Boeing and McDonnell Douglas. Most of the engines to power the aircraft will be provided by General Electric of the US.

Mr Clinton became personally involved in the deal, telephoning Saudi King Fahd to urge him to favour the US companies over Airbus Industrie, the European consortium.

Initial details of the agreement were announced in June, but there was still some doubt in the aircraft industry over whether the finance would be available for the deal to go ahead. The agreement was finally signed on Wednesday evening in a private meeting between Prince Sultan and the McDonnell Douglas and Boeing chief executives.

Bankers in Riyadh say a consortium of Saudi banks is being formed to finance the deal. The US Export-Import Bank has also offered to lend financing assistance but it is still unclear whether the kingdom will use the agency.

A senior Riyadh-based western banker said: "We are ready and eager to finance this deal." He added, however, that he would have preferred to wait until next year, when he expects the Saudi economy to strengthen.

The aircraft will be delivered to Saudia over the next four to five years, with the first ones scheduled to enter service in 1997.

Saudia will purchase 23 Boeing 777-200s and five 747-400s. It will also buy four MD-11 freighters and 29 MD-90s from McDonnell Douglas.

As expected, the engine orders for the Boeings and for the MD-11s went to the US. The Boeing 777s will be powered by General Electric's GE90 engine. Saudia chose the engine in spite of difficulties which have occurred in testing the GE90 for a British Airways 777. The GE CF6-80C2 engine was selected for the 747s and the MD-11s.

The only compensation for non-US companies came in the engines for the MD-90s, which are powered by V2500s, produced by a consortium which includes Rolls-Royce of the UK, MTU of Germany and Japan Aero Engines, as well as Pratt & Whitney of the US.

'The day we grant ourselves nation status, we will grow to our full dimension'

Quebec pushes its identity as vote looms

By Bernard Simon in Toronto

Visitors to Quebec can be forgiven for assuming that Canada's French-speaking province is already an independent country.

An "Immigration Québec" booth stands in the arrivals hall at Montreal's Dorval airport. The legislature in Quebec City is known as the Assemblée Nationale, and more flagpoles fly the blue-and-white fleur-de-lys than the Canadian *maple leaf.*

Quebec has its own civil-law code and its own police force. Most of the 7m inhabitants think of themselves as Québécois rather than French-Canadians.

Does all this mean that Quebec can emerge quickly as a stable, prosperous country if its residents vote in favour of independence in next Monday's referendum?

The separatists have assured voters that a Yes vote makes sense both from the heart and the head. As Mr Lucien Bouchard, the charismatic leader who would probably be an independent Quebec's first president, told Québécois on Wednesday evening: "The day we grant ourselves nation status, we will grow to our full dimension."

If the separatists have their way, Quebec would quickly be admitted to the North American Free Trade Agreement, continue using the Canadian dollar, and enjoy much the same access as now to the neighbouring province of Ontario, its biggest trade partner. Mr Bouchard has assured foreign lenders that Quebec would honour its debts.

The province's Parti Québécois government last month released a raft of reassuring studies prepared by economists sympathetic to its cause. They concluded that the new country would enjoy a competitive tax system; more funds would be freed for science and technology spending; agriculture would be revitalised; and so on. According to one study, independence "should without a doubt make it possible to provide more effective services for small business."

Few would dispute that Quebec has a sizeable, diversified and vibrant economy. The province covers an area more than five times the size of France, and its gross domestic product roughly matches Austria and Belgium.

Abundant supplies of cheap hydro-electric power have helped attract some of the world's biggest aluminium smelters. Quebec is a big forest products exporter and provides over 40 per cent of Canada's milk supplies.

With a skilled workforce and low labour mobility, Montreal has become a hub for pharmaceutical, aerospace and computer software companies, including dozens of multinational subsidiaries.

But the province has an obvious Achilles heel – its bloated public sector. The civil service has expanded vastly over the past decade. An array of government agencies directs large sectors of the economy.

The most powerful is the Caisse de depôt et de placement du Quebec, the public-sector pension fund, which periodically flexes its financial muscle to achieve public policy goals, including local ownership of the bastions of Quebec commerce and industry.

Quebec's public finances give cause for concern. The present separatist government, preoccupied with the drive towards sovereignty, has made the least progress among Canada's 10 provinces in getting to grips with its debt and deficit problems.

The problem would probably worsen after a break-up. A recent study by the C D Howe Institute, a Toronto-based think-tank, estimated that, even in a "best case scenario," an independent Quebec's budget deficit in the current fiscal year would be C$16bn (US$12bn), or 9 per cent of gross domestic product. The new country would have a debt burden of C$184bn, equal to 106 per cent of GDP, compared to the OECD average of 73 per cent.

"Would domestic and international financial markets be prepared to absorb that volume of debt from this new sovereign borrower, one without a track record and in the midst of separation adjustments?" the C D Howe study asks.

The Bank Credit Analyst, a Montreal research group, estimates that a fiscal contraction equal to more than 8 per cent of GDP would be needed just to stabilise the debt ratio. "Such a deflationary shock would be unthinkable in the aftermath of all the other post-separation traumas and the utopian promises made by the indépendantistes," the BCA concludes.

The PQ government suppressed the study it commissioned on an independent Quebec's public finances, even though it was written by one of Mr Bouchard's economic advisers.

Quebec's ability to realise its full potential would be heavily influenced by the speed of the transition process and the climate in which it took place.

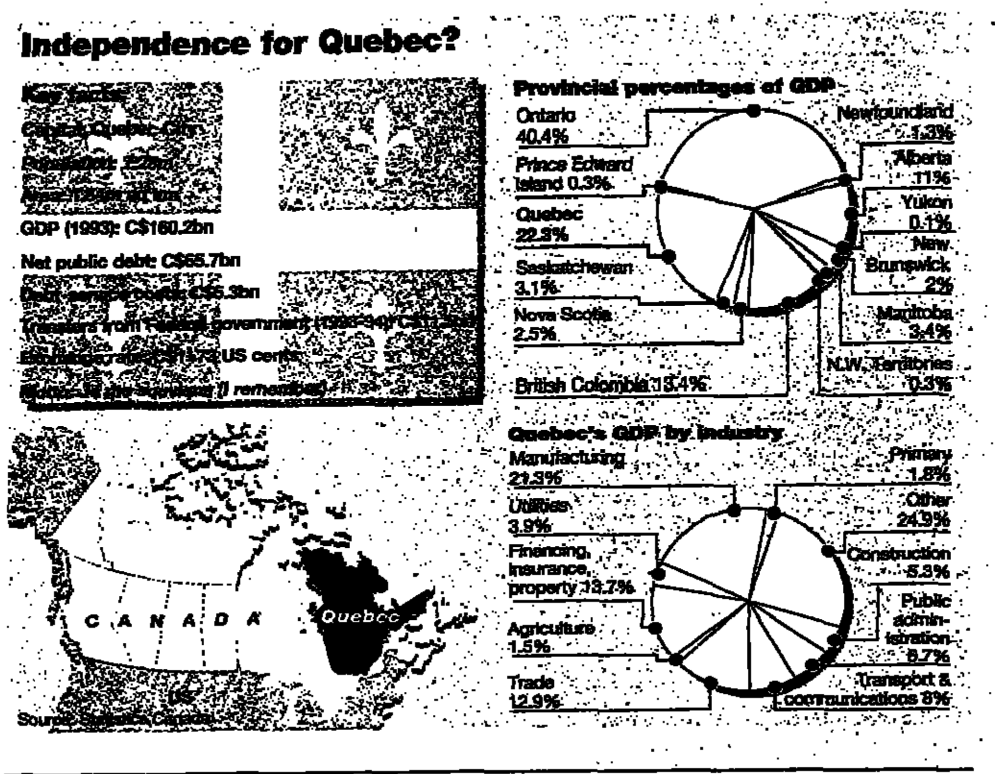
But even a relatively amicable break-up is unlikely to be as painless as the separatists envisage. Mr Patrick Grady, an Ottawa economist, predicts that the break-up would cost Quebec about 10 per cent of its output, while Canada would sacrifice about 5 per cent of its GDP.

Some important Quebec industries, such as textiles, dairy products, clothing and footwear, risk losing subsidies, marketing arrangements and other forms of protection which are now provided, at least in part, by Ottawa.

Most economists say Quebec takes more money from the rest of Canada in the form of transfer payments and subsidies than it contributes in taxes.

A less tangible cost would be the flight of talent. Companies such as Canadian Pacific, the railway and resources conglomerate, or BCE, the telecommunications group and Canada's biggest company, would be unlikely to keep their head offices in Montreal.

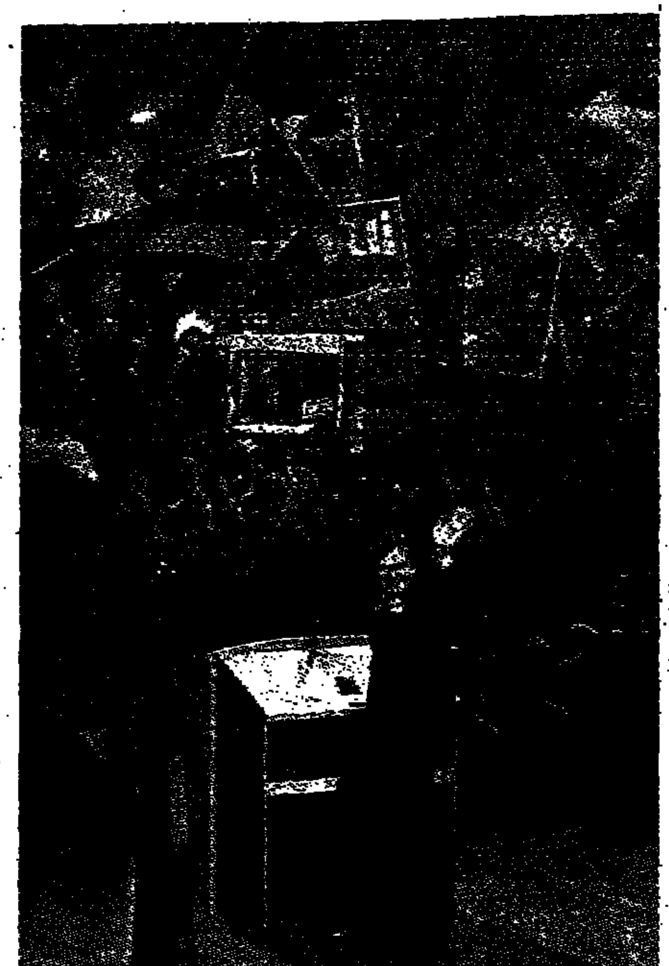
An independent Quebec would by no means be the poorest or least pleasant country in the western hemisphere. But few outside the separatists' ranks believe that Quebec's economy would be strengthened by leaving Canada.



Canada's two top airlines have cut fares sharply to help federalists gather in Montreal today for a final show of strength before Monday's Quebec sovereignty referendum, reports Robert Gibbens in Montreal.

Police said they were preparing for a crowd of up to 250,000 to hear Mr Jean Chrétien, prime minister, and others speak.

Quebec's director-general of elections said the discount fares offered by Air Canada, Canadian Airlines and also by Via Rail broke the referendum rules because they appeared to favour the anti-sovereignty campaign. But the companies insisted the "unity fares" were normal commercial discounted tickets. The latest poll, conducted last week, gives the federalists a 2-point lead at 51 per cent to 49 per cent, after apportioning the 13 per cent undecideds.



Lucien Bouchard leads a recent Yes rally in Montreal Reuter

Congress on course to pass budget bills

By Jurek Martin in Washington

The Republican leadership in Congress yesterday made several last-minute compromises and confidently predicted passage in the House and Senate over the next 24 hours of their separate comprehensive budget "reconciliation" bills.

Substantial reforms of Medicare, Medicaid for the poor, and welfare are rolled into the two bills, along with the annual appropriations and $245bn worth of controversial tax cuts, all designed to produce a balanced budget by the year 2002. However, the details of the regular appropriations measures remain to be settled.

The House cleared some procedural hurdles and set a vote for later yesterday, while the Senate, always less predictable, remained on track for a decision today. President Bill Clinton made it clear on Wednesday that, once the two versions were unified and placed on his desk the legislation faced a certain veto.

The White House also weighed in yesterday with fresh allegations that Senator Bob Dole, the majority leader and Congressman Newt Gingrich, the Speaker, were determined to destroy Medicare, the federal health insurance programme for the elderly.

Mr Mike McCurry, the press spokesman, pointed to speeches this week by the two Republicans in which both laid bare their antipathy to Medicare. Mr Gingrich, he said, had told a private insurance group he intended that Medicare "wither on the vine," while Mr Dole had boasted of a 30-year dislike for the programme.

Mr McCurry also charged that the Republicans were playing up the Whitewater affair as a way of diverting attention from the radical contents of the legislation. Yesterday the committee, chaired by Senator Alfonse D'Amato of New York, said it would issue subpoenas to senior aides to Mrs Hillary Clinton concerning the events after the suicide in 1993 of Mr Vincent Foster, then deputy White House legal counsel.

Several Democratic congressmen yesterday highlighted a poll released yesterday by the New York Times and CBS News showing growing public scepticism over the Republican goals and means.

By an 81-12 per cent margin those surveyed doubted that the Republican plans, if enacted, would result in a balanced budget in seven years, while a 57-26 per cent edge disapproved of Medicare reform, to the extent that its details were understood. The majority against the proposed tax cuts, which Democrats charge are tilted towards the wealthy, was nearly 3-1.

Among last-minute accommodations, Mr Dole and Mr Gingrich changed the formulas under which Medicaid funds would be disbursed in block grants to the states and left open the possibility of smaller cuts in farm subsidies.

Other negotiations yesterday centred on student loans, tax relief for the working poor and, according to some accounts, even the size of the planned overall tax cuts.

Markets hit by sharp peso fall

By Daniel Dombey in Mexico City and Stephen Fidler in London

Latin American financial markets yesterday suffered their worst day for over six months, with a sharp fall in the Mexican peso helping to depress prices of financial assets across the region.

The peso registered its sharpest one-day decline since March, to stand at around 7.25 to the dollar at midday, compared with 6.79 at Wednesday's close.

Traders said the peso had fallen because of Mexican, rather than foreign, selling in a thin market. They said the weakness of the Mexican economic recovery and political uncertainty might have influenced the currency, but most admitted they could not find a convincing explanation.

The price of Latin American fixed income assets fell, as did stock markets. The Mexican market fell by some 3.4 per cent by midday, while the Brazilian market was down some 6 per cent and Argentina's by about 4 per cent.

Market analysts said influences from elsewhere in Latin America were generally negative, with concerns about Brazil's fiscal deficit and the position of Mr Domingo Cavallo, Argentine economy minister.

"This feels like March," said Mr Lawrence Krohn, economist with UBS Securities in New York, referring to the last time Latin financial markets collapsed. "But this time, there appear to be no new fundamental economic reasons for the selling." In Mexico, recent increases in short-term interest rates have failed to stop the peso's decline. Rates on 28-day Treasury certificates, known as Cetes, have risen to over 42 per cent.

"Like at the beginning of the year, the increase in Cetes is becoming counter-productive," said a trader. "Rather than strengthening the currency, the increases worry people about stifling any possible economic growth."

General concern about the Mexican government's handling of peace negotiations in the southeastern state of Chiapas have added to worries, despite the rebels' limited military capabilities.

US durable goods orders jump 3%

By Michael Prowse in Washington

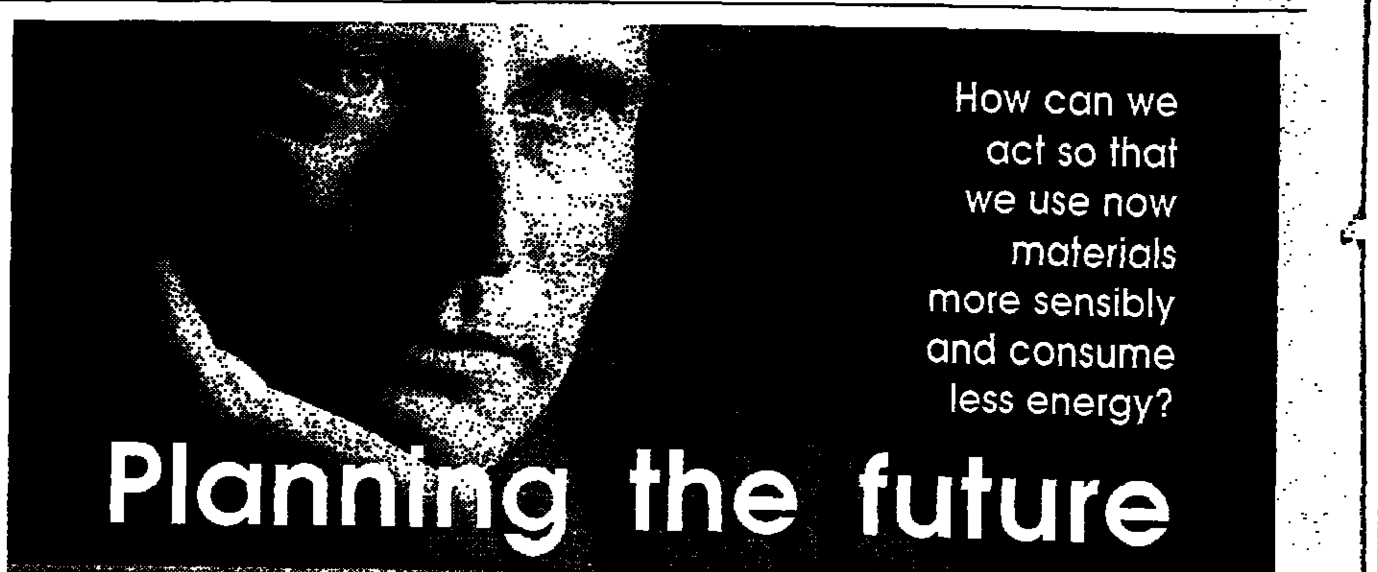
New orders for US durable goods rose 3 per cent last month and 8.5 per cent in the year to September, signalling solid business investment growth in spite of an earlier manufacturing shake-out.

The figures were much stronger than expected and prompted early selling of bonds on Wall Street as investors judged the Federal Reserve would be less likely to lower short-term interest rates.

Last month's increase, which followed a revised 5.1 per cent gain in August, reflected an erratic 10.8 per cent rise in orders for aircraft and other transport equipment. Electrical machinery orders – including communications equipment – were up 5.2 per cent.

Economists were impressed by the underlying strength of orders for non-defence capital goods, which is seen as a guide to civilian investment trends. Excluding aircraft, such orders rose 7.1 per cent last month following a 3 per cent gain in August. This more than offset an 8.1 per cent drop in July.

"There is no question the economy has come back after a slowdown in the second quarter," said Mr James O'Sullivan, an economist at J P Morgan, the New York bank. Morgan is projecting growth at an annual rate of 3.5 per cent in the fourth quarter this year and first three months of next year.



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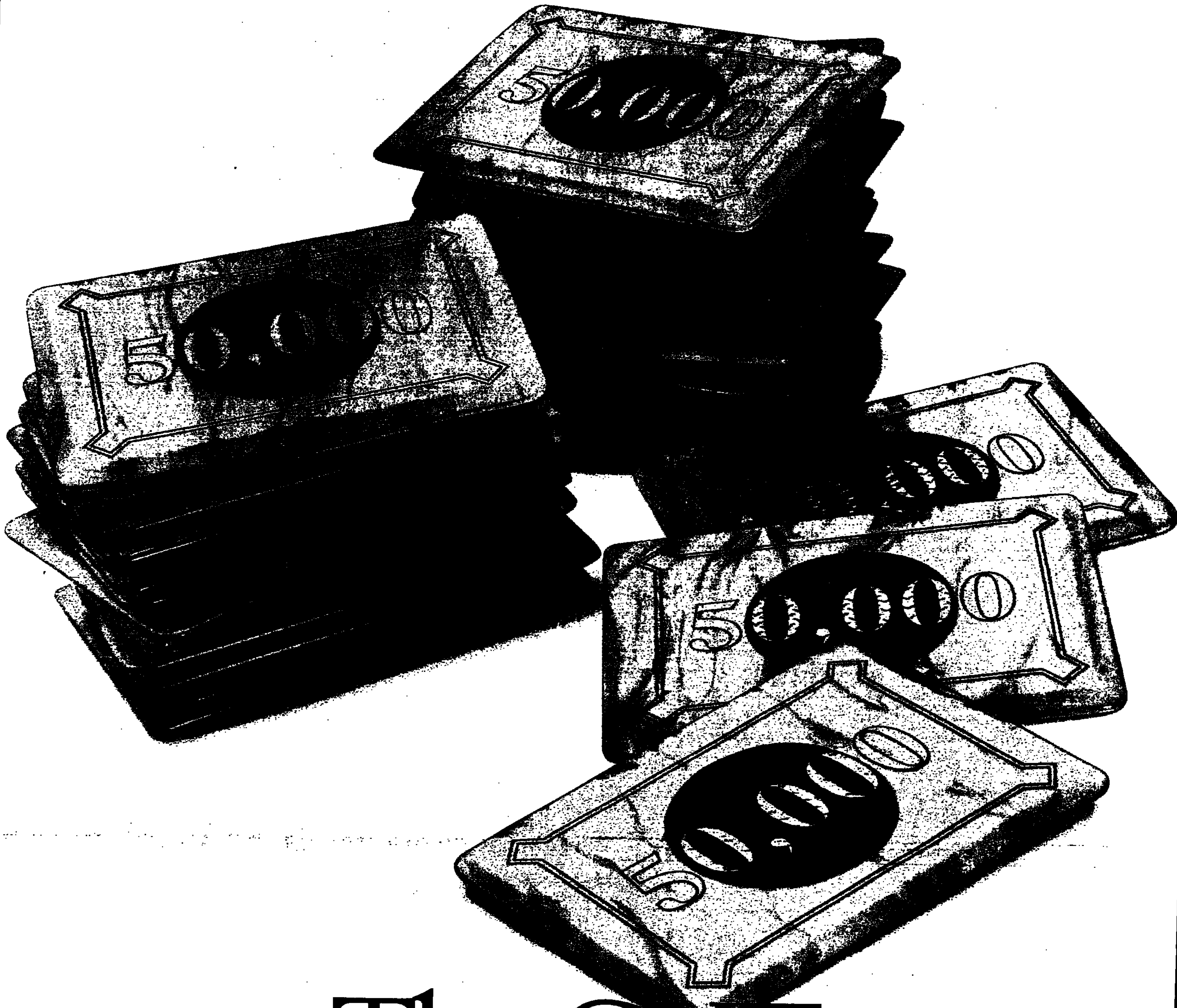

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NEWS: INTERNATIONAL

Peace delivers the summit, but not the goods

Reform and regional integration are two vital watchwords for the Middle East and North Africa economic gathering in Amman starting on Sunday, writes David Gardner

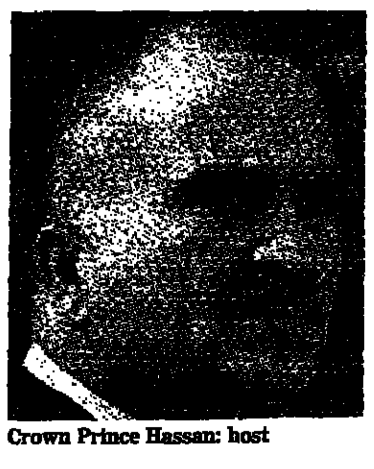
The Middle East and North Africa economic summit, which opens in Amman on Sunday, is intended to demonstrate that the Middle East is now open for business, that a region long mired in war has turned decisively towards peace and joint development, and is seeking its place in a competitive global economy.

Some 1,500 business and government leaders will be at the summit to test this proposition, but, at the moment, many will find it wanting. Some deals will be done, and ambitious plans for developing cross-border infrastructure will be unveiled. But two years after the Israeli-Palestinian peace accord opened the way to a regional settlement, the Middle East and North Africa is less a region than an aggregate of closed national economies, competitive with, rather than complementary to, each other, with most of them too small to attract serious foreign investment interest.

As the World Bank underlines forcefully in a study out today, the region will have to reform and integrate its economies rapidly if it wants to earn a decent living from the international economy and restore hope to its fast-multiplying people. Since the oil price collapse of 1986, per capita income across the region has fallen on average 2 per cent a year. The region's non-oil exports amount to less than Finland's; its share of foreign investment in the developing world is equivalent to sub-Saharan Africa's at about 3 per cent; and while overall productivity in 1960-90 rose annually by about 1.8 per cent in East Asia and 0.5 per cent in Latin America, in the Middle East and North Africa it declined steadily at about 0.2 per cent a year.

One part of the problem is undoubtedly that the peace process is far from complete. The agreement reached in September to extend Palestinian self-rule throughout the Israeli-occupied West Bank will be very difficult to implement. It was only this week that Jordan and Israel signed a trade agreement, a year after their peace treaty. Syria and Lebanon have so far failed to reach terms with Israel, offering peace in return for their occupied lands, and are both boycotting the Amman summit. But long-standing structural problems remain the chief barrier to the region's economic prosperity.

After half a century of rhetoric about Arab unity, and the creation of more than 60 pan-Arab organisations, intra-regional commerce amounts to less than 9 per cent of total trade.



Crown Prince Hassan: host

"They all think in national dimensions," says a senior European Commission strategist on the region. Arab capital held outside the region, estimated by the World Bank at \$350bn, has by contrast become international, looking for big, border-free markets. The prospect of peace definitely offers what Crown Prince Hassan of Jordan, who is hosting the Amman summit, calls the "value added of stability", but significant reflows of capital look unlikely while the regional economy stays fragmented and unreformed.

Amman will essentially be an investors' summit, and will look at strategies for promoting intra-regional business and alliances, and examine a range of specific projects of regional interest, such as plans for joint Israeli-Jordanian-Palestinian development of the Jordan Rift Valley below their common frontier of the Dead Sea. The summit is expected to announce that a Middle East Development Bank, to be capitalised at about \$5bn, will be created. But in terms of regional integration, the clearest outline is likely to be the sub-regional shape of an Israel-Palestine-Jordan triangle.

A probably more substantial integration exercise should come at the end of next month in Barcelona, where the 15 European Union member states and 12 Middle East and North African countries are expected to agree on a Euro-Mediterranean partnership treaty. This provides for a near doubling of aid and soft loans to the region for infrastructure and business modernisation – likely to be of the order of \$12bn to the end of the decade – and the target of a Euro-Med free trade zone by 2010.

Just as important, it would offer cumulative "rules of origin" for exports into the EU – by far the region's biggest market. That means that those countries which do free trade deals among themselves, and use each other's materials in their goods, get free access to the Union's market. This form of internal integration, within a framework of gradual integration with Europe, should expand the regional market, and enhance its attraction to investors.

"That's the real dividend of peace," says one senior Arab official, "not only [investment in] infrastructure but the opportunity to export your manufactures."

Crown Prince Hassan believes that more liberal rules of origin, which it is hoped the US will emulate, will "act as facilitators in developing our standards... and internationalising our private sectors".

Except Israel, however, the region's countries tend to produce similar goods, like garments, detergents and pharmaceuticals. "This will make it very difficult to produce the cumulative added value," says Ms Rima Khalaf, Jordan's planning minister. In the short term, therefore, the accent will remain on structural economic reform at national level, particularly on privatisation and removing investment barriers.

As the World Bank points out, Jordan itself, Morocco and Tunisia have gone furthest on reform, generating higher growth in incomes, exports and jobs than their Arab neighbours. But it is also these three, the European Commission says, along with Israel, Lebanon, and, to a lesser extent, Egypt, which "clearly understood" the EU offer on rules of origin and intra-regional integration.

As Ms Khalaf sums it up, "as a region we're too small to be one bloc. We have to integrate, but as part of a bigger bloc, which helps us to develop very rapidly."

Mideast and North Africa falling behind

But the World Bank says the findings in its report are 'ultimately hopeful'

By Roula Khalaf, Middle East Correspondent

The Middle East and North Africa region has in the past decade fallen from second-highest performance on income growth to last, according to a new World Bank report.

The report, "Claiming the future: Choosing prosperity in the Middle East and North Africa", published today before the opening on Sunday of the regional economic summit in Amman, says the findings are "sometimes troubling" and "often surprising" but "ultimately hopeful".

Despite the 2 per cent yearly fall in per capita incomes registered over the last 10 years – the largest decline in any developing region – the bank says that, with serious commitment to reform, the region has enough resources and human potential to restore the growth rate of more than 5 per cent it enjoyed in the early 1980s.

"The message we are putting across as a contribution to the discussion in Amman is that the region has substantial potential and, with the right policies, payoffs to reforms can be considerable," says Mr Caio Koch-Weser, World Bank vice president for the region.

However, without such commitment to reform, the bank says, the number of unemployed, now 9m, could rise to 15m, in an area where unemployment rates are already the highest in the world.

The countries in the region, from Morocco to Iran and Yemen, are diverse. But many suffer from common problems. Government attention has often been consumed by regional conflicts rather than economic development, and oil wealth has bred bad habits of lavish spending and dependence on a single export.

Until the mid-1980s, high oil prices were lifting Gulf economies, and ripple effects were boosting the region's growth. The crisis highlighted in the report is the product of two main factors: collapsing oil prices and productivity declining by 0.2 per cent a year – so most countries in the region achieve about half the output per unit of investment of East Asian countries.

The availability of oil allowed many countries to postpone reforms. Still, the report argues, many have elements of competitiveness – such as reasonable levels of inflation, good infrastructure and large pools of foreign savings – which should allow them to regain growth.

The region has produced a few success stories that can act as role models. Jordan, Morocco and Tunisia, which instituted reforms gradually but consistently over the last 10 years, have experienced faster growth in income, exports and jobs than have other countries in the region. "These countries show the potential, they show what is possible to achieve in the region," says Mrs Nemat Shafik, the report's lead author.

The report says the international environment offers new possibilities. Middle East peace will reduce the region's perceived risk, although military spending in the region – the highest in the world as a percentage of GDP – will continue to be fueled by regional crisis other than the Arab-Israeli conflict.

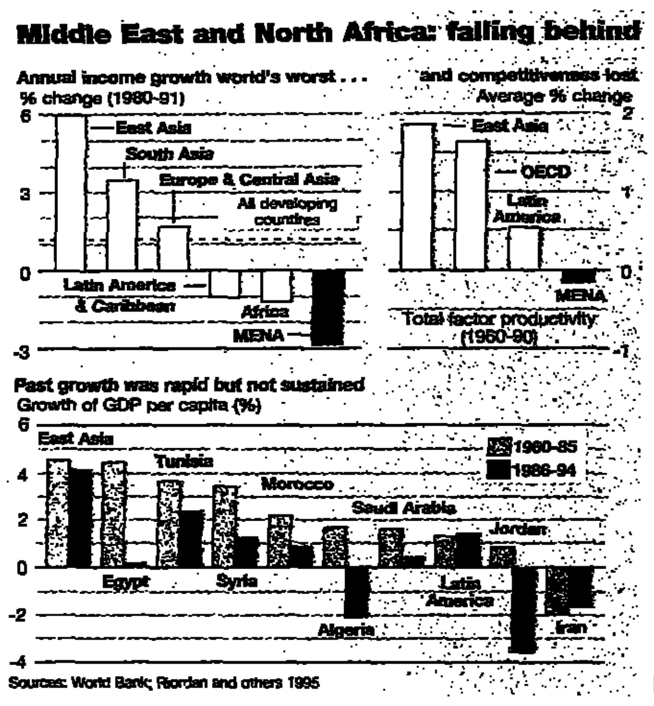
More hope is pinned on the European Union's Mediterranean initiative, which rests on using trade and aid to incorporate Mediterranean countries into the European economic sphere. Most countries in the region have until now failed to use integration with the world economy as an engine of growth.

Oil accounts for 80 per cent of total trade and intraregional trade stands at only at 7-8 per cent of the total.

According to the report, the Mediterranean project will increase official resource flows to the region by more than half, promote globalisation and improve productivity levels so companies in the region can compete with Europe.

The World Bank offers regional leaders a reformer's checklist of measures that should be taken to restore growth. These include:

- Promoting non-oil exports by providing exporters with access to imports at world prices as well as export financing;
- Making the private sector more efficient, through measures that include liberalising trade and financial markets, lower borrowing costs and abolishing burdensome licensing requirements, high customs fees and protracted dispute resolution;
- Producing more skilled and flexible workers through liberalising labour markets and increasing access to education: vocational training should be demand-driven through joint public-private management, governance and financing;
- Making privatisation a priority and attracting foreign investment by providing clear, simple and credible rules for foreign investors.



Sources: World Bank; Riordan and others 1995

Lebanese fund seeks foreign investment

By Roula Khalaf

The Lebanese government is sponsoring a \$100m (£63m) investment fund to attract foreign investment into the Lebanese private sector.

Mr Marwan Ghandour, chairman of Beirut's Lebanon Invest, a leading investment bank, said yesterday his bank had been mandated by a government agency to structure a fund to raise \$100m from Lebanese and foreign investors.

The fund, to be listed on the Beirut stock exchange, will invest in start-ups and in businesses in need of recapitalisation. The fund will also help finance build-operate-transfer projects the government is counting on in its \$30bn plans for reconstruction in the aftermath of civil war.

Lebanon Invest and the government will chose an international investment bank to act as co-lead in structuring and placing the deal.

"Many companies which survived the war need recapitalisation but it is not easy to raise capital except through old family networks," Mr Ghandour said yesterday.

Lebanon's banking system is dominated by commercial banks which tend to invest deposits in high-yielding government bonds and shy away from long-term lending but are now setting up investment banking arms to take part in financing reconstruction.

Ruling party win in Zanzibar

Doubts remained over Tanzania's first multi-party polls, set for Sunday, after the ruling party's local candidate was yesterday declared winner of regional elections on Zanzibar which have been marred by allegations of vote-rigging, writes Michela Wrong in Dar Es Salaam.

The Zanzibar electoral commission said incumbent Salmin Amour of the Chama Cha Mapinduzi polled 50.2 per cent against 49.8 per cent for Seif Sharif Hamad of the Civic United Front.

Twist in cable operators' phone number dispute

By William Lewis

The US parent companies of UK cable operations, who are pressing for British Telecommunications to bear most of the cost burden of transfers of telephone numbers, may have seriously damaged their case in the UK.

They have recently argued to US regulators that number portability – the opportunity for customers to keep the same number when switching to another telecoms operator – is not essential for the creation of a fully competitive telecoms market.

This is the opposite of what their UK subsidiaries have been telling the UK regulators in the last few months. Mr Don Cruickshank, director-general of Oftel and the telecoms industry regulator has also said that "bringing about number portability is my highest priority at present".

The cable companies, according to their consultants, have told the UK Monopolies and Mergers Commission, which is conducting an inquiry into number portability, that its introduction is critical for competition to flourish in the UK.

However yesterday Oftel defended the apparent contradiction between the views submitted to the MMC by the cable companies and statements made by their US parents to the Federal Communications Commission.

An Oftel spokesman said "it is nothing new singing one song when you are a monopolist and another when you are weak".

Last week the MMC announced that it has extended its enquiry into number portability until December.

In April, Oftel called in the MMC to resolve its row with BT over number portability. At present, customers changing telecoms companies must also change their numbers.

UK-based TeleWest said last week that the lack of number portability was "the single biggest obstacle to people taking up this service".

Nynex CableComms, which is 67 per cent owned by Nynex Corporation in the US, says that "the benefits of number portability for consumers and new telephony operators are clear". They include customers being "able to choose their telephony supplier on the basis of price, quality and service and not face artificial inhibitions".

In its official submission to the FCC, which has asked for comments on number portability, Nynex Corp stated: "Nynex is not denying that number portability can benefit competition," it says. "However Nynex does not believe number portability is essential to that competition".

SBC of the US, which has UK cable interests, told the FCC that "a local carrier with lower prices, high service quality, and attractive service packages will have no trouble attracting customers without number portability". It states: "common sense, however, demonstrates that portability, by itself, matters little".

BT has argued against Oftel's proposal that the costs of number portability should be allocated according to market share. SBC states that: "new entrants seeking to compete in the telecommunications business should pay a reasonable portion of the cost of implementing any solution and let individual consumers determine whether they are willing to pay for the benefit of having their number ported".

Nynex CableComms said yesterday that the difference in comments "reflects different market conditions in the two countries".

Railtrack aims to woo City ahead of sale

By Charles Batchelor, Transport Correspondent

Railtrack, the company which has taken over British Rail's track, signalling and stations, will today launch an information campaign to persuade stockbroking analysts and fund managers to buy its shares when it is floated on the stock market next spring.

Senior company executives, headed by Mr Richard Aitken-Davies, privatisation director, will take a dozen City analysts on a tour of railway facilities in southern England at the start of a series of visits to be held over the next four weeks.

This represents the first stage in Railtrack's efforts to woo the City and will be followed in early December by the unveiling of the company's 10-year investment plan – claimed by senior executives to be the first opportunity the company has had to practice long-term planning since nationalisation in 1947.

The next step will be the announcement, expected in January, of details of Railtrack's capital structure once it has completed negotiations with the Treasury on how much of the £1.7bn ($2.66bn) of debt inherited from British Rail it will keep on its books.

The company wants to reduce the inherited debt so it can more easily fund its ambitious spending programmes.

The flotation of Railtrack is one of the most controversial elements in the government's programme to privatise British Rail. The Labour party has suggested that if it wins the next election it might buy enough Railtrack shares to return it to public ownership.

The government's original intention had been to keep Railtrack in the public sector for several years but it decided last year to bring the privatisation forward.

Bringing the sell-off date forward has meant the preparation for privatisation has been so fast that the City still has very little information on which to judge the company, estimated to be worth between £1.5bn and £2bn.

More financial details will be available when the 10-year investment programme is released in December. This will include details of its plans to refurbish stations, improve track and modernise signalling.

Long-term planning will become possible because Railtrack's franchise agreements of seven years or more with the train operating companies will guarantee its revenues.

Railtrack announced in September that it had made a pre-tax profit of £189m on turnover of £2.28bn in its first year of operation to the end of March.

Ford pay offer well below union claim

By Lisa Wood, Employment Staff

Ford Motor yesterday offered its blue-collar workers a two-year pay deal worth 3 per cent a year, against union demands for a 10 per cent rise. The company also rejected a claim for a two-hour reduction in the 39-hour working week.

As union representatives at Ford described the offer as an "insult", trade unions at Vauxhall Motors, a subsidiary of General Motors, will today give notice of a strike ballot after rejecting a pay deal similar to that on offer from Ford.

The Ford and Vauxhall negotiations are among the largest in this autumn's pay round, covering a combined total of more than 30,000 employees.

Most recent private sector settlements have led to pay rises of between 3 and 3.9 per cent. Trade unions see the pay demands at Ford and at Vauxhall as test cases. At Vauxhall the unions, which also want a cut in working hours, were offered a two-year deal: 3.5 per cent in the first year and an inflation-linked rise in the second.

Not all the car manufacturers are in the firing line this autumn. Employees at Rover, Jaguar, Nissan and Peugeot Talbot will all receive increases of at least 4 per cent over the next few months as the second part of two-year deals.

Trade unions representing the 22,300 hourly paid workers at Ford, where there has not been a stoppage since 1988, are seeking a 10 per cent pay rise in the current year and a cut in the working week to 37 hours. The latter would bring UK Ford workers in line with those in Germany.

Negotiators from the two main unions, the TGWU general union and the AEEU engineering union, said the 3 per cent offer could not produce a settlement.

But Mr Tony Woodley, chairman of the unions' negotiating team, said he believed there was room for manoeuvre. The company has not described its offer as final.

Ford unions justify their pay demand by claiming increases in productivity of up to 90 per cent over the past decade, making Ford's UK operations one of the most competitive in the US-owned group.

The unions say direct labour costs in the UK are up to 40 per cent below Ford's plants in Germany and Belgium.

Mr Woodley said the cost to Ford of meeting the 10 per cent basic pay claim would add only 0.7 per cent to overall costs.

Ford, which makes the Escort and Fiesta cars at Halewood on Merseyside and Dagenham in Essex, said after the 2½ hour meeting: "We believe we have made a fair offer which will allow us to remain competitive in our industry."

The unions will now consider the company's offer before formally responding at another meeting with management on November 15.

Potential for financial 'contagion' has increased due to complexity of global system

Bank governor sets out rescue principles

By John Gapper, Banking Editor

The growing complexity of the global financial system has made it more likely that the collapse of a bank or securities firm will spark a chain reaction, Mr Eddie George, the governor of the Bank of England, said yesterday.

Mr George, speaking to Japanese bankers in Tokyo, said the potential for one collapse causing "contagion" had "increased". A wide variety of financial institutions now had the capacity to create instability.

In a speech setting out the principles the Bank follows when committing public funds to a rescue, Mr George said that large British banks were becoming more reluctant to take part in "lifeboat" rescues of other banks in trouble.

Although a consortium of banks and merchant banks committed £650m ($1.02bn) to rescuing Barings, the merchant bank, in February, Mr George said banks were now less inclined to contribute to rescues simply to serve the public interest.

Mr George, speaking to the Japanese Federation of Bankers' Associations, said he hoped they found his account of the UK experience of bank rescue "of some possible use to you" in dealing with the troubled Japanese banking system.

This is the first time since the Barings collapse from £830m of derivatives losses Mr George has set out the principles underlying UK bank rescues. The Bank decided not to support Barings with public money. The Bank has contributed money to several bank rescues in the past 15 years. It is still owed £100m from its support for four small banks caught by the property collapse in 1991, although it hopes to recover the money in time.

Mr George said UK banks "participated very substantially" in the "lifeboat" during the secondary banking crisis in 1973-74, but were reluctant to be drawn into the support extended to the small banks between 1991 and 1992.

They were more reluctant to participate in rescues because "the degree of competition between them and accountability to shareholders have increased," although they would take part if it could be shown to be in their own self-interest.

He said securities firms and investment funds of all kinds "take sometimes huge positions in financial markets all around the world". Although their assets are normally liquid, they are "no more immune from failure than banks are".

The Bank did not want to eliminate risk in the financial system, or "wrap it in cotton wool". Although a risk-free system could be produced, it would mean restraining firms to such an extent that services would be curtailed.

Mr George said the Bank would always seek a commercial solution before committing its own funds, would not normally support an insolvent institution and would seek a clear exit from any rescue operation in which it was involved.

Mr George emphasised, however, that the Bank would step in to rescue banks in cases where there was likely to be "contagion" in the financial system, leading to other bank collapses.

"These days it is not just banks or credit institutions that have the capacity to cause systemic instability – nor is the risk of systemic problems contained within national frontiers," he said.

Disney moves in on central London

By Simon London, Property Correspondent

One of the London's largest empty office buildings left over from the property bull market of the 1980s has been let to Disney, the US entertainment group, in a move which highlights the growing shortage of big new buildings close to the centre of the capital.

The US group is taking a total of 220,000 sq ft for their UK headquarters at the Centre West development in Hammersmith, west London, which is owned by Slough Estates, the UK property company, and Hypo Bank, the German mortgage bank.

The deal is one of the biggest commercial property lettings in London this year.

The area to the west of central London, stretching from Hammersmith to Heathrow Airport, saw intense property development activity in the late 1980s. Many of the new buildings remained empty when demand for business space from tenants fell.

However, there has been virtually no new development activity in the area for the last four years and big new office buildings are in short supply.

In August the distinctive Ark Building in Hammersmith, empty since it was completed in 1992, was let to Seagram, the Canadian drinks and entertainment group.

Rents in the area have risen from £10 to £15 ($1.57 to $23.55) a sq ft during recession to over £20 a sq ft today. Disney is paying between £25 and £27.50 a sq ft for a 25-year lease at Centre West.

Centre West was one of the most ambitious west London property developments. Bredero, a small developer acquired last year by Slough Estates, originally planned to build 500,000 sq ft of office space, but only half the office space was completed before the market turned down.

Disney is taking the remaining empty space in this first phase and a new building which will be built by Slough Estates.

Tories clash over Hong Kong visa rights

By Robert Peston, Political Editor

Mr Michael Howard, the British home secretary, is rebuffing pressure from Mr Chris Patten, the governor of Hong Kong, for the UK to allow 1.3m Hong Kong Chinese to have the right to enter the UK without a visa.

The two are also at loggerheads over Mr Patten's demand that a further 7,000 non-Chinese Hong Kong citizens should be given full British passports, because of the risk that they will become stateless refugees when Hong Kong reverts to Chinese rule in 1997. Mr Patten, a former UK cabinet minister and past chairman of the Conservative party, is visiting London and pressed his case with the home secretary on Wednesday. Last night he was lobbying the prime minister, Mr John Major.

He is concerned that he may lose his battle, because of the the government's current concern with reducing immigration – and the threat of illegal immigration – to the UK.

It is currently preparing a raft of measures to curb illegal immigration, aimed in particular at bogus asylum seekers.

"The government is afraid of looking soft on immigration ahead of a general election", said a Hong Kong official.

However, Mr Patten is concerned about the plight of Hong Kong's ethnic minorities, many of whom are Asians, because under China's nationality laws they would not become Chinese citizens after 1997.

"They may become stateless, unless we give them British passports", said a senior Hong Kong official.

The Home Office however believes the risk to these people is minimal. "The Chinese have said they can stay in Hong Kong", said an official.

Mr Patten also believes it is unfair that only Hong Kong holders of British Dependent Territories passports or of British National Overseas Passports would be eligible to visit the UK without a visa after UK rule ends in the territory.

An estimated 1.3m Hong Kong citizens currently travel abroad using certificates of identity as their travel documents. After 1997, they and other Hong Kong citizens will receive Special Administrative Region of China (SAR) passports.

The Hong Kong governor believes all SAR passport holders should be given the right to visit the UK without a visa, since this is a right currently given to millions of Eastern Europeans and to US citizens.

However, Mr Howard has argued these certificate holders currently need a visa and that there is no reason why this rule should change.

Mr Patten is fearful that the Chinese government would make political capital out of any refusal by the UK to give this entry right and would claim it showed the UK had little interest in the plight of Hong Kong's citizens.

Labour to fight asylum measures

Labour yesterday pledged to repeal the new Conservative immigration and asylum measures to be announced in next months's Queen's Speech, *Robert Shrimsley writes.*

The bill, being drawn up by Mr Michael Howard, home secretary, is expected to restrict the flow of asylum seekers and to fine employers who take on illegal immigrants.

Mr Jack Straw, shadow home secretary, said: "This the most crude playing of the race card I have ever seen and we are going to resist it. We are not just going to go through the motions of fighting [these] proposals on the floor of the house. We won't have any truck with such proposals in government."

He said he did not believe Labour would lose electorally by fighting measures seen by many commentators to have broad popular appeal. "I don't believe that the Labour party has ever suffered by standing up for people's human rights against discrimination."

● Conservatives yesterday demanded that Labour ditches its parliamentary candidate in Exeter, Mr John Lloyd, over his role in the armed struggle against apartheid in South Africa during the 1960s.

Mr John Major, the prime minister, said: "I am wholly opposed to terrorism and I have no doubt the majority of people in Exeter will feel the same way."

Labour said Mr Lloyd had been completely frank about his past during his selection process and was approved by the local party unanimously; he would not be dropped.

Irish terrorist prisoners in line for early release

By John Kampfner, *Westminster Correspondent*

The British government yesterday attempted to address one of the main concerns of Sinn Féin by announcing it will push through a law that will allow 470 paramilitaries early release from Northern Irish jails.

Sir Patrick Mayhew, Northern Ireland secretary, said he hoped the Northern Ireland Remission of Sentences Bill would go through all its parliamentary stages within two weeks.

The bill will allow prisoners convicted of terrorist offences to terms of more than five years but less than life to be freed after serving half their sentences. It reverses a decision taken in 1989, at the height of terrorist violence, which extended that period to two-thirds.

Sir Patrick said he did not envisage resistance among Conservative MPs, some of whom suggested the measure might be interpreted as a further concession to the political wing of the IRA at a sensitive time in the peace process.

The measure, Sir Patrick said, was supported by Mr Michael Howard, the home secretary, who told his party conference he would introduce legislation ending automatic right to parole in mainland jails as part of a tough law and order package.

Sir Patrick said it was logical to hurry the bill through the Commons before the Queen's speech next month to allow prison authorities time to prepare.

He confirmed that 88 inmates, divided evenly between loyalists and republicans – would be released by the end of the year under the change. A similar figure would be affected in 1996, with the total rising to 470 within four years.

This did not, he said, constitute the first steps towards a general amnesty.

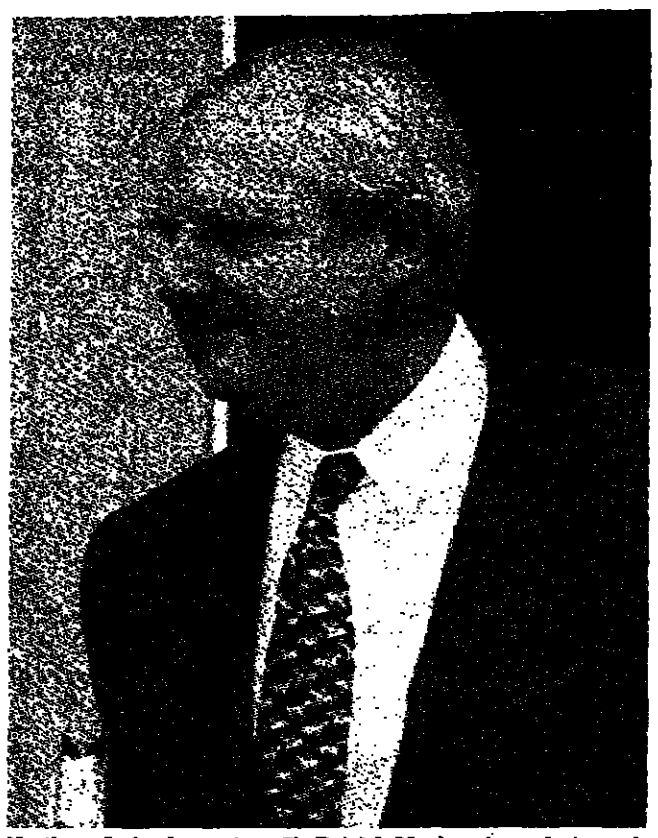
While denying any pressure to use the prisoner issue to help kick-start political talks, Northern Ireland officials said it was prudent to demonstrate good faith to the paramilitary groups more than a year into their ceasefires.

The changes, foreshadowed in a speech by Sir Patrick in August, were described by republican sources as "insignificant".

Terrorist prisoners will now be subject to similar rules on remission as other categories of inmates.

The bill will reserve the right for the secretary of state to revoke any of its provisions by executive order.

It will also allow him to recall any prisoners if they are considered a danger to the public – up to the time when they would have served two-thirds of their sentence.



Northern Ireland secretary Sir Patrick Mayhew is ready to push legislation permitting the early releases through parliament

Ex-prison boss tries to lock up bonus

By Raymond Snoddy and Andrew Adonis

Mr Derek Lewis, the dismissed director-general of the Prison Service, intends to pursue the Home Office for a bonus on his performance last year in addition to at least a full year's salary.

Mr Lewis believes he is contractually entitled to a bonus of more than £35,000 in addition to his salary of around £125,000 because he met or exceeded all eight performance targets set for him by the Home Office.

The demand will make it difficult for the government to reach an amicable financial settlement with Mr Lewis. A bonus payment would prove highly embarrassing to Mr Michael Howard, home secretary, who sacked Mr Lewis for management failings identified by last week's Learmont Report.

However, Mr Howard has publicly praised Mr Lewis for his success in meeting performance targets the home secretary set for the Prison Service. The targets range from cutting the number of escapes, which in the first half of this year were 54 per cent down on 1994-95 and 76 per cent down on 1992-93. Other targets met include improvements in the prison regime, notably sanitary conditions, overcrowding and the length of time prisoners are locked in their cells.

Mr Lewis received a £35,000 bonus for 1993-94. Last year he voluntary waived his bonus because of the Whitemoor prison escapes, but he is not intending to do so this year despite the Parkhurst breakout which gave rise to the Learmont inquiry.

Unless he receives adequate compensation, he plans to go ahead with his High Court action against Mr Howard for breach of contract. Apart from the home secretary, Mr Lewis would also call witnesses to crucial Home Office conversations, including Mr Richard Wilson, the permanent secretary.

Widening the issues at stake in his dismissal, Mr Lewis claimed it had been a mistake to establish the Prison Service as an agency with no statutory safeguard of its autonomy from ministerial interference. "The lessons of the past couple of years are that in something as politically sensitive as the prison service, where great change is taking place in public expectations and political views and where there is such a propensity for things to go wrong, then it won't work," he said.

Mr Lewis said that the Prison Service now faced a choice between reintegration within the Home Office or having its independence guaranteed by a new legal framework akin to that of the police.

"If something goes wrong [with the police] the home secretary isn't instantly expected to be down at the Commons explaining what happened," he said.

UK NEWS DIGEST

Right-wingers force retreat on divorce law

Pro-family Conservative MPs of the traditional Right were on the march last night, after forcing the government to retreat on two pieces of legislation on domestic law. The MPs succeeded in forcing the Lord Chancellor Lord Mackay to delay a bill aimed at extending the rights of unmarried cohabitees, with the likelihood that it will be dropped.

Lord Mackay is also facing a moral backlash from Conservative backbenchers over a separate Divorce Bill, which will allow one-year 'no fault' divorces.

A number of Conservative MPs have warned they will fight the bill, and Lord Mackay has himself admitted that the legislation could "come a cropper".

Faced with the prospect of running battles with Tory backbenchers on such a sensitive issues, there were signs last night that the government could drop the bill from the Queen's Speech on November 15. Senior officials indicated last night that the Divorce Bill was not essential to the government's programme.

The dropping of the Divorce Bill would leave the government with around 11 major pieces of legislation for the next session, broadly similar to the programme in the current year.

The cabinet yesterday put the finishing touches to the programme, which is expected to include a bill to pave the way for nursery school vouchers, and immigration bill, a major housing bill and a legal aid bill. *George Parker*

Business launches ethnic focus

Eighteen of the UK's leading companies yesterday launched Race for Equality, a campaign to focus business on the skills and resources of ethnic minorities.

The companies – which include all the big high street banks, British Telecommunications, Grand Metropolitan and the BBC – aim to develop their ethnic minority suppliers and recruit talented minority workers. Supporters claim this will enable them to win market share in the UK and overseas.

"This is self-interest," said Mr Robert Ayling, managing director of British Airways and chairman of Race for Equality. "The quality, qualifications and skills in the minority community represent an opportunity for British business to be more competitive."

Ethnic minorities comprise five per cent of the UK population; but between eight and nine per cent of the workforce, and eight per cent of university admissions, according to figures compiled by Midland bank. The ethnic minority proportion of the workforce is set to double over the next 30 years. *Krishna Guha*

Minister orders sheep dip study

A £500,000 ($785,000) medical study into the possible long-term health effects of toxic sheep dips on farmworkers was announced yesterday by Mrs Angela Browning, agriculture minister.

Mrs Browning said a team from the Institute of Occupational Medicine in Edinburgh would report by April 1999 on the dangers in using organo-phosphorus dips. Hundreds of farmworkers have complained of falling ill after using OP dips, with problems ranging from nausea to long-term malaise and depression. The ministry of agriculture required farmers to dip their sheep until last year. *George Parker*

UK to get EU transport funds

The UK will receive £22m ($34.5m) from the European Union's Trans European Network financing programme in 1995 for several large transport schemes. The money represents 15 per cent of the total available to all member states and will to help fund the Channel tunnel rail link (£13.6m), the west coast main rail line (£7m) and road links between Ireland and Britain (£1.6m). *Charles Batchelor*

■ **Review** by Simon London

East-west divide closes

The revival of interest in Canary Wharf could affect the whole central London market

The geography of London has changed subtly over the past decade and continues to do so. The UK capital is no longer divided into discrete areas, the preserve of investment banks, government departments or multinational companies.

While the City of London remains the hub of the financial services industry, this year has seen prestigious investment banks relocate to docklands, in the case of Barclays de Zoete Wedd, and to the fringes of the West End, in the case of Banque Paribas. Big industrial companies no longer feel obliged to maintain a presence in the West End, as the decision of Glaxo Wellcome, the pharmaceuticals company, to desert Berkeley Square, Mayfair, for Greenford shows.

Companies that were considered natural inhabitants of the western corridor, running between Hammersmith and Heathrow, are considering moves instead to docklands. Readers Digest, which is in negotiations that could take it to Canary Wharf, the large docklands office development, is a notable example.

This blurring of boundaries is part of a long-term trend. The quality of a building and the cost of occupation are now more important than its exact location.

"Occupiers have become more specification-conscious and less location-conscious," says Mr Peter Damesick, head of research as St Quintin, the chartered surveyors.

Many in the property industry are reluctant to believe that the trend will continue. One reason for this scepticism is that property is perhaps the most location-conscious industry in the UK.

The majority of property and surveying companies are clustered around Mayfair and St James's, where they can trade crucial information and gossip.

But other industries are becoming more footloose. This could be good news for developments in fringe locations that can offer high quality accommodation at much lower costs than traditional prime locations.

Canary Wharf, built in a location once regarded as beyond the pale by most occupiers, is one beneficiary of the trend. Others could include office developments in locations such as Paddington, on the western fringe of the West End, and Spitalfields, on the eastern fringe of the City.

A further implication could be that property owners in prime locations will no longer be able to charge such a high premium for space. For example, investment banks looking for core City premises always have the option of moving to Canary Wharf. This gives them a strong negotiating position.

Indeed, the revival of interest in Canary Wharf, and its impending change of ownership, has implications for the whole of the central London property market.

Recent lettings have confirmed that Canary Wharf has become much more than overspill space for the City of London. The extension to London Underground's Jubilee Line, which is scheduled to open in 1998, is likely to make the docklands development a genuine competitor for both the West End and the western corridor.

With about 1m sq ft of space left to fill and planning permission for a further 12m sq ft, the potential supply of offices in central London now looks very large indeed.

This would matter less if demand for office space was expanding. But surveys suggest that companies in the region are actually reducing the space they occupy.

The latest report on London property confidence by Jones Lang Wootton, the chartered surveyors, concludes: "It is now clear that market practitioners are having to operate in an environment characterised by substantial and continuing corporate real estate downsizing."

The London property market will have to rely on small firms and inward investment – international companies locating in London – to boost overall take-up of business space.

There have been some notable successes in this regard. Deutsche Bank's decision to move its investment banking headquarters from Frankfurt to London was a notable coup for the UK capital.

New multinational companies formed from mergers also appear to favour London as "neutral" territory for their headquarters. Pharmacia and Upjohn, the new US-Swedish pharmaceuticals company formed earlier this year, is one such company looking for London offices.

But it is not clear that inward investment can make up for the general reduction in the amount of property that houses established London occupiers. And against this background, the outlook for rents is uncertain. Property agents argue that the shortage of appropriate new office buildings – 40,000 sq ft corporate headquarters in Mayfair or 300,000 sq ft giants close to the Bank of England – will drive rents forward as tenants compete for space. Yet the availability of space in new locations, combined with generally poor net demand for space, may hold them down for longer than expected.

After all, central London landlords have been disappointed in the past. In the 14 years to the end of 1994, central London office rents increased by an average of 1.4 per cent a year. Over the same period, rents in Manchester increased by an average annual rate of 6.8 per cent.

The cumulative effect of this low rental growth is that central London rents are now less than twice the level of those in Manchester, Glasgow, Leeds, Bristol, Birmingham and Edinburgh. In the mid-1970s central London was three or four times more expensive than regional centres.

These figures can be interpreted in two ways: either London is due for a period of rising rents that will restore the differential over regional centres, or the capital has been in structural decline relative to its regional rivals which will continue.

The former interpretation is favoured by most property agents. But many forecast a big step-up in City and West End rents this year that failed to materialise. There is no clear reason why 1996 should be much different.

■ **The City**

Defending the Square Mile

The takeover flurry may lead to greater demand for very large buildings by investment banks

Even at sunrise, the shadow of Canary Wharf's 50-floor tower does not reach the City of London, three miles to the west, traditional home of the UK financial services industry.

But the revival of interest in Canary Wharf has stimulated the Corporation of London, the City's local authority, to defend its position vigorously. It is trying hard to ensure that the Square Mile has enough big buildings to accommodate investment banks, which support the City's position as a global financial centre.

The City is not short of office space. About 6.17m sq ft of space is currently empty, a vacancy rate of about 10 per cent according to Corporation of London estimates. Perhaps half of this is good-quality, modern accommodation.

The snag is that the majority of the vacancies are in smaller buildings. There are only eight buildings of over 100,000 sq ft available and nothing bigger than 160,000 sq ft.

Against this, the pipeline of potential developments is enormous. Planning permission has been granted for more than 16m sq ft of office space on over 100 sites. More than half of these consents cover buildings of over 100,000 sq ft.

But by no means all of these projects will go ahead. Some schemes were worked-up during recession and need to be heavily revised if they are to attract prestigious tenants.

Other projects do not make sense at current market rents. As in the West End, potential financial backers are unwilling to press ahead with developments until there are clear signs that City rents are rising.

A handful of big projects is well advanced. For example, Lord Palumbo's long-awaited 100,000 sq ft office building at One Poultry, the subject of years of planning debate, is now taking shape.

This summer, 11 new buildings or refurbishments were in progress in the Square Mile. More have started since. Last week MEPC, the quoted property company, announced that it was beginning work on its 175,000 sq ft Petershill project close to St Paul's Cathedral.

But with top City rents at about £35 per sq ft and only slowly rising, it is unlikely that the Square Mile will see a speculative development boom.

Neither does the Corporation want to encourage such a speculative bubble. But it does want to accommodate the 100 or so organisations identified as likely to look for new office space in the City within the next two years.

Included on this list are investment banks such as ABN Amro and Westdeutsche Landesbank and Liffe, the futures and options exchange – all requiring very large buildings.

The recent flurry of City takeovers will probably lead to additional demand for very large buildings as investment banks look to consolidate staff on a single site. Merrill Lynch is searching for a very large building following its acquisition of Smith New Court. Swiss Bank Corporation and SBC Warburg may also want to consolidate in a single building. Citibank, the US bank which is spread over five sites in central London, also recently announced that it plans to consolidate in a single building within the next four years.

These banks are in a very strong negotiating position. In addition to Canary Wharf, the developers of at least half a dozen big schemes around the City are vying for their attention.

The schemes likely to be on any short-list for a big City building include:

- Paternoster Square, next to St Paul's Cathedral, where Mitsubishi Estate, the Japanese property company, has bought out its joint venture partners, Greycoat of the UK and Park Tower Realty of the US.

But while the question of ownership has been resolved, developers are divided over whether the 750,000 sq ft neo-classical office and retail scheme is viable in its present form.

It is possible that the scheme, on one of London's most architecturally sensitive sites, could be reconfigured before work starts.

- Broadgate, the successful office development on the northern edge of the City, where over 1m sq ft of space was built in the 1980s and planning permission exists for further phases.
- Spitalfields, the area around the old fruit and vegetable market to the east of Broadgate, where a consortium comprising SPP, the Swedish insurance company, Costain, the UK contractor, and BICC, the engineering group, have been poised for two years to build up to 900,000 sq ft of offices.

ABN Amro is in discussions with the owners – and with the Corporation, which is the freeholder – and could pre-let a substantial new building.

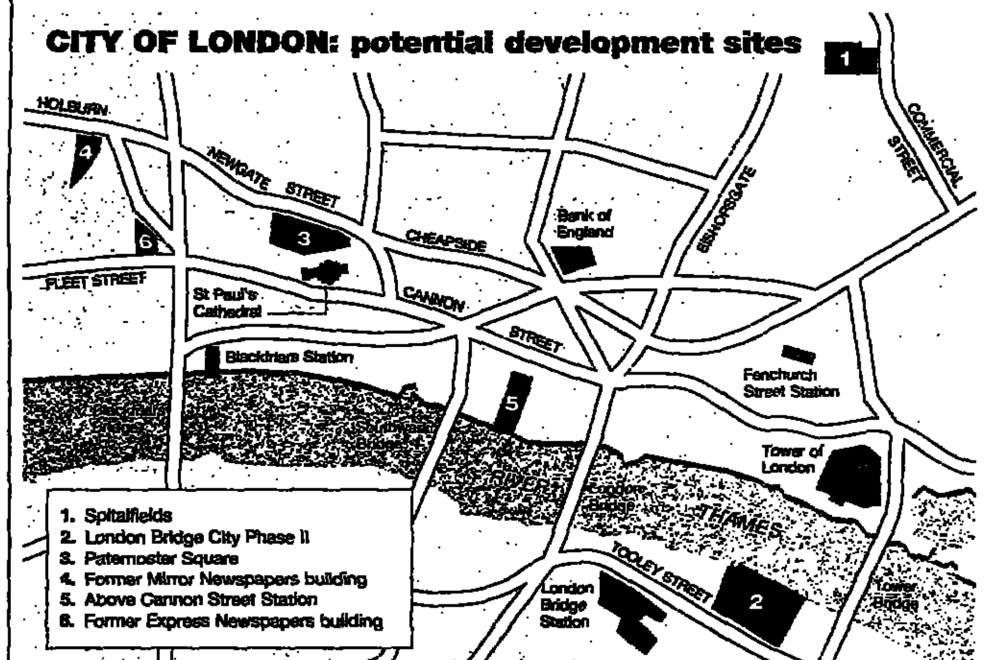
- London Bridge City, the development on the south bank of the Thames, where St Martins Property Group, owned by the Kuwaiti government, has planning permission for further buildings totalling 1m sq ft.
- The former Mirror Group Newspapers headquarters in Holborn, the freehold of which is also held by the Corporation, where planning permission exists for a new building of up to 800,000 sq ft.

Against this background, the City looks well placed to continue to attract financial sector tenants. Its biggest drawback in any direct competition with Canary Wharf is cost.

Deutsche Morgan Grenfell has agreed to pay a rent of £40 to £42.50 per sq ft in two years time for space at Winchester House, its planned new headquarters building in the City. Canary Wharf is currently quoting rents of about half this level, with deals being struck some way below.

Still, as a substantial property owner in its own right, the Corporation can strike its own deals with occupiers. Many continental European banks – including Deutsche Morgan Grenfell and ABN Amro – prefer to own the freehold of their buildings rather than a simple leasehold interest. At sites such as Spitalfields and Holborn, the Corporation has the power to oblige.

CITY OF LONDON: potential development sites



1. Spitalfields
2. London Bridge City Phase II
3. Paternoster Square
4. Former Mirror Newspapers building
5. Above Cannon Street Station
6. Former Express Newspapers building

■ Docklands

In Canary Wharf's shadow

The Jubilee Line is also stimulating property development south of the Thames

This year's events at Canary Wharf – culminating in a successful £800m bid by a consortium led by Mr Paul Reichmann, the Canadian who masterminded the large office development in the late 1980s – has overshadowed a gradual resurgence of activity elsewhere in London's docklands.

This is hardly surprising, given that Canary Wharf is by far the largest single project in docklands and dominates the area by virtue of its sheer physical bulk. But Canary Wharf's 4.5m sq ft of offices accounts for only one third of the total office stock of docklands. The question is whether Canary Wharf's new lease of life will have an uplifting effect on the whole of docklands, or whether the availability of cheap land and property nearby will act as a drag on Canary Wharf.

Figures from the London Docklands Development Corporation show that take-up of office space was 1m sq ft in the year to March. This compares with 800,000 sq ft in 1993-1994 and 332,000 sq ft in 1992-1993. Canary Wharf is largely responsible for the resurgence of tenant interest in docklands. Big lettings to tenants including Barclays de Zoete Wedd, the investment banking arm of Barclays Bank, have boosted the overall docklands figures. Measured by vacancy rates alone, Canary Wharf is already detaching itself from the fortunes of the surrounding area.

There is currently about 3m sq ft of vacant office property in docklands as a whole, including Canary Wharf. About 30 per cent of the total office stock is empty, down from 38 per cent at the end of 1993. Following a run of recent lettings, less than 1m sq ft is available at Canary Wharf itself, a vacancy rate of only about 20 per cent. If this trend continues, the differential between rents at Canary Wharf and those elsewhere in docklands will almost certainly widen.

Agents are quoting rents of about £10 to £12.50 per sq ft for the bigger vacant buildings in the Isle of Dogs business district such as the 1.25m sq ft Harbour Exchange development. In lesser locations, headline rents of £6 to £7 per sq ft are more typical. In contrast, headline rents at Canary Wharf are about £19 per sq ft, although very big tenants such as BZW have achieved substantially better terms.

So far tenants have been prepared to accept that the differential of perhaps £8 per sq ft between Canary Wharf and the rest of the Isle of Dogs is worth paying. The quality of the Canary Wharf buildings, and its critical mass in terms of tenants and retail facilities, are proving a powerful draw. On this basis, there is no reason why rental growth at Canary Wharf could not outpace the wider docklands area.

However, property owners in docklands could benefit from Canary Wharf's belated success. The blue chip companies at Canary Wharf will have to be serviced, often by companies occupying cheap accommodation nearby. "Canary Wharf is likely to move forward faster than the rest of docklands. But where Canary Wharf goes, docklands will follow," says Mr Rod Parker of Knight Frank and Rutley, the chartered surveyors.

Unlike most of London, the majority of the vacant offices in docklands are large and modern. In addition to Canary Wharf, there are six vacant buildings of over 100,000 sq ft in the docklands area. At East India Dock, situated between the Isle of Dogs and the Royal Docks, there is still 400,000 sq ft of space to let in two very large buildings.

With so much vacant space available, office development activity outside Canary Wharf has ground to a halt. But the LDDC is slowly moving ahead with plans to regenerate areas that missed out on the first wave of investment, such as the Royal Docks area, to the east of the Isle of Dogs.

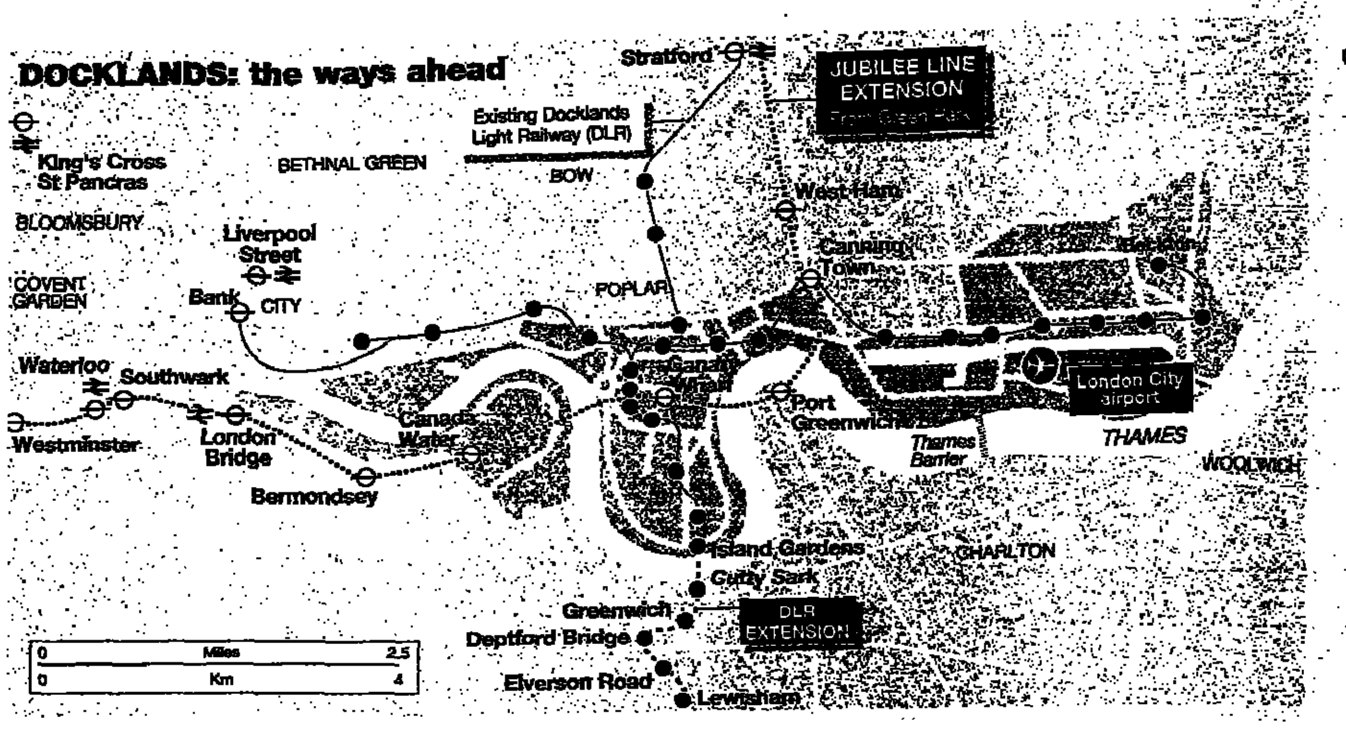
The LDDC's blueprint for the Royal Docks area includes a large national exhibition centre, a university, a business park and an urban village at West Silvertown. It remains to be seen how many of these visions are realised. While the West Silvertown development is already in progress, funding has yet to be secured for the exhibition centre by the London International Exhibition Centre consortium that was chosen by the LDDC as developer last December. The scheduled arrival of the Jubilee Line is also stimulating development of residential, leisure and retail property south of the Thames.

Earlier this month, PSIT, the quoted property company, acquired an 8-acre site at Surrey Quays, where it plans to build a new retail park. The deal is the largest negotiated by the LDDC south of the river since 1987. The planned Canada Water Retail Park will comprise about 100,000 sq ft of retail space, situated close to the new Jubilee Line station.

On an adjoining site at Canada Yard, a joint venture between London and Bath Estates and AR&V Investments plans to build a 135,000 sq ft leisure development including a nine screen cinema, bowling alley and restaurants.

On the Greenwich peninsula, on the site of a former gas works, British Gas has applied for planning permission to build up to 3,000 new homes, offices and a theme park.

During the summer, Frogmore Estates, another quoted developer, acquired land at Butlers Wharf, close to Tower Bridge, and plans to finish the scheme started by Sir Terence Conran, the retailer and restaurateur, in the mid-1980s. Although Butlers Wharf is now outside the LDDC area, resurgence of the project underlines that Canary Wharf is not the only docklands development stirring back into life.



■ Western corridor

Demand 'exceeding supply'

Real evidence of rental growth is now being seen

It is only two or three years since London's western corridor, stretching along the M4 motorway from Hammersmith to Heathrow Airport and beyond, was awash with empty offices.

The area saw some of the biggest speculative developments planned in the confident atmosphere of the late 1980s. When tenant demand fell away, developers – or their bankers – were left holding space that it seemed might never let.

Yet most of the big buildings in the western corridor have found tenants and agents are even talking about a shortage of big new buildings.

The letting this summer of the The Ark building in Hammersmith, one of the most notorious of its generation of highly-specified 1980s office buildings, was symbolic of the transformation. The building, owned by Securum, the Swedish state-backed holding company, was substantially let to Seagram, the Canadian drinks and media company.

This week's letting of 220,000 sq ft at Centre West, the large office development in Hammersmith, to Disney, the US entertainment group, is another landmark in the transformation of the western corridor.

"Areas such as the Bath Road at Heathrow were held up as examples of bad conditions in the property markets. Now there is real scarcity in the market," says Mr James Brounger of Richard Ellis, the chartered surveyors. There are hopes that the handful of big buildings now vacant – such as 1000 Great West Road, owned by Imry, the developer owned by Barclays bank – will find tenants in the next few months.

With the supply of big new buildings now dwindling, landlords are in a better position to negotiate.

Mr Chris Hiatt of Jones Lang Wootton, the chartered surveyors, says: "We are now seeing real evidence of rental growth and this coupled with the current demand and lack of supply, meant the balance between landlord and tenant has been restored. Rent free periods have reduced to six months compared with the 18-month periods being agreed a year ago."

JLW believes that rents for prime space in the better locations around Hammersmith and Heathrow will exceed £23.50 per sq ft by the end of 1996. Disney is paying up £27.50 per sq ft for its space at Centre West.

With few big buildings now

Is tenant interest in Canary Wharf a challenge?

available, some companies are opting to build their own. Samsung, the South Korean industrial group, recently acquired an 8.8-acre site on the Great West Road and intends to build a 150,000 sq ft head office building.

Hopes of higher rents are also prompting developers to start speculative schemes. Stockley Park near to Heathrow Airport, which in the 1980s was the UK's first business park, plans to build a new block to provide 90,000 sq ft which will be ready for occupation in the autumn of 1996.

This is a relatively small addition to the 1.5m sq ft of offices which have already been built at Stockley Park, but the first new building on the site since the late 1980s underlines that confidence is returning.

London and Metropolitan's Dukes Green, a smaller office park in the Heathrow area, is also substantially let following the decision by DHL, the courier company, to take 47,000 sq ft of space on a 20 year lease at a rent of about £17 per sq ft.

Even the outer fringes of the M4 corridor are feeling a return of confidence. In Slough, to the west of London, top office rents are returning to pre-recession levels as the stock of available space dwindles, according to Lambert Smith Hampton, the chartered surveyors.

With office take-up running at a historically high level and few new developments in the pipeline, the firm expects top rents to rise to £25 per sq ft by the end of next year, not far below the levels achieved before the recession in 1990.

One of the big questions facing the western corridor, though, is whether the resurgence of tenant interest in Canary Wharf, the large office development in docklands, represents real competition.

After all, Canary Wharf is selling itself on similar virtues to the western corridor: big new buildings and proximity to central London but at much lower rents.

West of London landlords will have to take notice if Readers Digest, which had been looking for a headquarters building in the western corridor, ends up taking a building at Canary Wharf instead. The company is in negotiations which could take it to docklands.

A deal would underline that Canary Wharf is not just a potential home for City of London financial-sector tenants. Big pharmaceuticals companies, which have also favoured west London in the past, may also be tempted by the presence in docklands of the European Medicines Evaluation Agency, the industry regulator.

"Any company looking at the west of London option now also has the east of London option on its shortlist," commented the property manager of one large service company.

In common with the rest of London, the western corridor also has to come to terms with an increasing amount of good quality second-hand office space becoming available as companies restructure.

Dow Chemicals, the US chemicals company, is moving out of 63,000 sq ft of space at Lakeside House, Stockley Park, and looking for a tenant to take its place. Also at Stockley park, BT has just sub-let 170,000 sq ft of space from British Petroleum.

Indeed, 1000 Great West Road, one of the last vacant landmark buildings on the main route out to the M4 motorway, is available because Wang, the US computer group and former tenant, moved out.

■ West End

Glamour but no delivery

Optimists still expect top rents to advance swiftly

The West End of London remains among the world's most glamorous property markets, home to multinationals, media companies and government departments.

But the area has so far failed to deliver the exciting recovery in rents and property values which many investors and property agents predicted.

Indeed, take-up of office space by tenants has been disappointing. In the first nine months of this year, about 3.5m sq ft of offices were leased in the area stretching from Victoria to Holborn. This was about 30 per cent lower than in the same period of 1994.

Against this background, expectations that rents would already be rising have been disappointed. Top rents in Mayfair and St James's, the core of the West End, remain at a shade over £40 per sq ft, only slightly higher than last year. Optimists still expect top rents to move forward swiftly. Richard Ellis, the chartered surveyors, forecasts a rise in prime Mayfair rents to £50 per sq ft by the end of 1996. Other firms of surveyors are predicting still faster growth.

The common thread to these forecasts is the argument that a shortage of new high-quality office buildings will drive rents higher as potential tenants compete for available space.

Mr Paul Yearly of Jones Lang Wootton notes that there is an especially severe shortage of new headquarters buildings of between 30,000 and 50,000 sq ft in the core of the West End.

A number of big companies, notably Imperial Chemical Industries, have called off the search for new buildings because no suitable sites were available. British Gas opted to take space in the Adelphi Building, close to the Strand and away from the core, rather

Continued on next page

FINANCIAL TIMES REPORT: London business property

Fringe areas

Continued from previous page

than wait for a free-standing headquarters to be built.

The lack of new buildings in prime locations makes it difficult to discern whether top rents are rising or not because there are few lettings taking place.

The big test will come when the Prudential, the life insurers, lets its big new building at 30 Berkeley Square in Mayfair, the only building of its size and location coming to the market.

If the rent is over £50 per sq ft, as some property agents predict, landlords in the area will rejoice.

The lack of clear evidence of rental growth is holding up many new developments. Few projects would be profitable at current market rents. Yet institutional investors are reluctant to finance new buildings until they can see that rents are rising.

"Developers are asking institutions to believe in rental growth but they are reluctant to do so. There is a stand-off going on," says Mr Yearly.

Developers that believe in rental growth are pressing ahead regardless. Pillar, the quoted property company, is starting construction of a new 40,000 sq ft headquarters building at 6-7 Clifford Street, Mayfair, rather than wait for institutional funding.

The former headquarters building of MI5, the counter-intelligence service, is being acquired from the government by Development Securities, the UK property company, and a German fund.

The partners plan to press ahead with a new 300,000 sq ft building on the 1 acre site, complete with 30,000 sq ft floors which will be the largest in the core of the West End.

Like the Prudential, these developers are doubtless hoping to secure a large letting to big companies known to be considering a move such as GEC and Reed Elsevier.

Outside the prime locations of Mayfair and St James's, development activity is more widespread and potential tenants have greater choice.

Early next year, Hermes, the fund manager, will finish construction of a 100,000 sq ft refurbished office building at 103 Wigmore Street, a building formerly occupied by International Business Machines.

Kierran Cross: one of the buildings made available as companies move to new premises or restructure

At least a dozen similar projects are in progress in "fringe" West End areas north of Oxford Street and in Victoria. Against a background of competition for tenants between developers, it is unlikely that these buildings will command rents of anywhere near £50 per sq ft.

Concentrating on big headquarters buildings also gives a misleading picture of the West End property market. The average letting in the area is only about 3,000 sq ft.

In Soho and Covent Garden, the traditional home of smaller advertising and media companies, rents are already rising and landlords have enjoyed almost two years of solid recovery.

One of the big questions facing the whole West End market, though, is how much second-hand space will become available as companies move to new premises or restructure.

For example, Grand Metropolitan, the food and drinks group, will have to find tenants for three buildings if its completes its rumoured move to Henrietta House, Henrietta Place, the last self-contained new building of 100,000 sq ft available in the West End.

Last month Inchcape, the trading group, announced that it was closing its West End headquarters as part of a rationalisation exercise.

Glaxo, the pharmaceuticals giant, is moving out of its Berkeley Square headquarters and relocating staff out of central London following the acquisition of Wellcome, its rival pharmaceuticals company.

Wellcome's own headquarters, Unicorn House on Euston Road, is also vacant following the takeover.

On the Strand, next to Charing Cross station, the 41,500 sq ft building formerly occupied by British Aerospace and now known as Kierran Cross, is also available.

The government is likely to contribute to this supply of second-hand space over the next few years. Property Holdings, which is responsible for government buildings, has said that it intends to cut the amount of office space in central London from 21m sq ft to 14m sq ft over the next five years.

The Home Office, for example, is currently reviewing its 800,000 sq ft of office space in the West End. A big reduction in the amount of space it occupies is likely.

Victoria, the traditional home of government departments, is likely to bear the brunt of this rationalisation but the ripples could spread across the West End, perhaps even disturbing the refined atmosphere of Mayfair.

THE PROPERTY MARKET

A bouquet to build upon

Simon London on the revival of interest in the Spitalfields site

Four years ago Mr Peter Beckwith, then at the helm of London & Edinburgh Trust, predicted that the company's Spitalfields development, on the north-eastern edge of the City of London, would come back to life in 1995.

With the property market then in deep recession, the prediction seemed implausible. But Spitalfields is indeed on the verge of a comeback.

The scheme is on the short lists of a number of big investment banks which are looking for new headquarters buildings.

Talks between Spitalfields' owners – SPP, the Swedish insurer which acquired LET in 1990, BICC, the UK engineering group, and Costain, the contractor – and ABN Amro, one of these banks, are at an advanced stage.

The site of the former fruit and flower market has three factors in its favour:

First, it is one of only a handful of sites in central London where it is possible to build very large buildings of up to 400,000 sq ft which are being demanded by big investment banks.

Second, the value of the site is probably low enough to allow the Spitalfields Development Group to offer highly competitive rents.

Mr Mike Bear, chief executive of SDG, says that Spitalfields would be profitable at rents "anything above the low £30s".

Deutsche Morgan Grenfell, which recently opted to build a new headquarters building at Winchester House, in the heart of the City, has agreed to pay a rent of between £40 and £42.50 per sq ft when the building is finished in two years.

Third, although the site is outside the boundaries of the City, the freehold over much of the 11 acre site is owned by the Corporation of London, the City's local authority.

The Corporation has signalled that it may be prepared to sell part of the freehold if that helps persuade one of the big banks to stay near the City rather than relocate to docklands.

SDG's plans, which were granted outline permission by the London Borough of Tower Hamlets in 1993 and envisage 900,000 sq ft of office space, are actually the third incarnation of the Spitalfields scheme.

The first master plan, produced in the mid-1980s by Fitzroy Robinson, the architects, was discarded by the developers in favour of an alternative scheme by rival firm Swanke Hayden Connell.

Although this proposal was approved by Tower Hamlets, Mr Chris Patten, then environment secretary, decided to intervene after protests from community groups.

The developers went back to the drawing board. Benjamin Thompson & Associates, the US firm responsible for highly regarded regeneration work in Boston, came up with the current scheme.

This aims to retain the "permeability" of the site by breaking the proposed new buildings down into smaller units and creating a street pattern.

The snag is that potential occupiers – big investment banks chief among them – more than ever demand big buildings with very large floors.

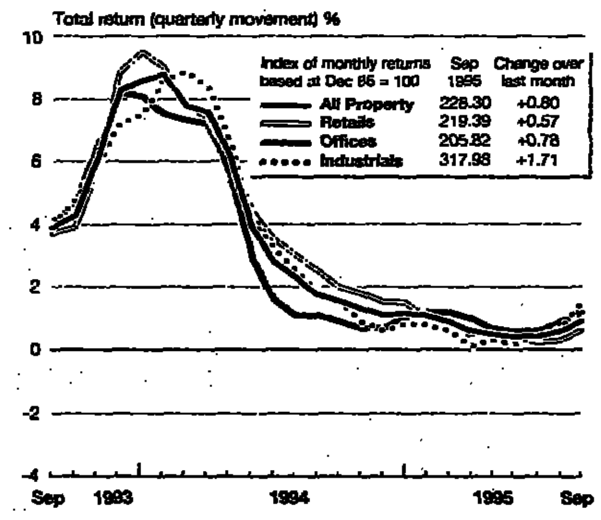
The 14 office buildings envisaged by the current masterplan could be too fragmented to satisfy this requirement.

The challenge for the developers, then, is to find ways of creating floors of up to 30,000 sq ft without antagonising the local authority by threatening the "permeability" of the site.

Mr Alan Artus, SDG's development director, believes that the challenge can be met. He points out that the project only has outline planning permission.

"It should be possible for us to provide very big buildings so long as we stick to basic rules about mass and style," he says.

IPD monthly index for September



Capital setback

Capital fell by 0.3 per cent during September, a faster rate of decline than the 0.2 per cent fall seen in August, according to the IPD monthly index. Rental values were unchanged for the second month in a row. The total return on the all property index was also unchanged at 0.4 per cent, pushing the index value up to 228.30.

The quarter-on-quarter performance was more encouraging, with the all property rate of total return increasing from 0.4 per cent in the three months to June to 0.9 per cent in three months to September. Rental values are also rising, showing 0.2 per cent growth in the third quarter, against a fall of 0.3 per cent in the second quarter.

The index shows a total rate of return of 3.3 per cent in the 12 months to September, down 0.2 percentage points compared with the year to August. The total return in the calendar year to date is 2.3 per cent.

Industrial property continues to show the best performance, delivering a total return of 0.5 per cent in September. In the 12 months to September, offices have delivered the best total return at 3.6 per cent.

MANAGEMENT

Following this month's RTZ-CRA merger, **David Lascelles** looks at the benefits of dual listed companies

Double identity

Dual listed companies are a small but select group consisting of names such as Royal Dutch Shell, Unilever and Reed Elsevier. By the end of the year they should be joined by RTZ-CRA, the world's largest mining group.

Dual listed companies (DLCs) are corporate entities whose shares are traded not as a single group but through two separate publicly quoted companies. They are held together by various binding agreements between the quoted companies and usually operate with combined management.

The two longest established models are the Anglo-Dutch combinations Royal Dutch Shell and Unilever. Of the two, Unilever is the more tight-knit: its Dutch and British component companies have their own shareholders, but their boards are identical and their management is unified.

At Royal Dutch Shell, two parent companies, one Dutch, one British, own the group's operating companies. But the parent companies are more distinct, having their own boards of directors.

Both these groups have stood the test of time, with more than 150 years between them. And the trend towards DLCs seems to be growing. As well as Reed Elsevier, formed in 1993, recent examples include the Swedish-Swiss combination Asea Brown Boveri and even the Anglo-French Eurotunnel.

The reasons which move companies to go for dual listing fall into two broad areas: asset sharing and tax. The DLC structure allows companies effectively to merge, but to retain their local identities to preserve tax advantages.

These considerations lay behind both the Royal Dutch Shell and Unilever link-ups, though over time other, less tangible benefits have emerged, such as the complementary nature of the British and Dutch national characters. "You initially do it for the 'hard' values," says Stephen Williams, the company secretary at Unilever. "The 'soft' ones come later. But these are the ones you have to watch because they make it all work."

At RTZ-CRA, tax was an important consideration in planning the get-together. A merger which resulted in CRA being owned by a non-Australian company would have cost its Australian shareholders a valuable "franking credit" – a local tax break on dividends. From the RTZ point of view, a merger could have resulted in £750m of additional UK advance corporation tax, an area which has been problematical for it because it makes most of its money outside the UK.

An outright takeover which valued CRA at a premium would also have been expensive for RTZ, and might have crystallised capital gains for CRA shareholders. Hence the appeal of the DLC route.

According to Bob Wilson, RTZ's chief executive, neither Shell nor Unilever provided the perfect model because RTZ-CRA needed a simple, streamlined structure for its highly "opportunity-driven" style of business.

Unlike Shell and Unilever, it does not have to run highly visible consumer brands in dozens of countries; instead it manages a constantly changing portfolio of mining projects, most of which are run through subsidiaries which will not be affected by the "merger".

The two companies wanted a structure which brought the core of the company as close as possible to an outright merger. The Royal Dutch Shell structure was too loose and could have resulted in costly duplication of effort. Shell has also had to embark on a significant internal restructuring to reduce top-heavy management and streamline decision-making.

The Unilever approach with its identical boards and closely unified management came closer to what RTZ-CRA wanted. The fact that Sir Derek Birkin, RTZ's chairman, is an advisory director of Unilever was also a factor. (Not that the Shell model lacks adherents. Reed Elsevier is also built around two quoted holding companies, Reed International and Elsevier, which jointly own the operating companies.)

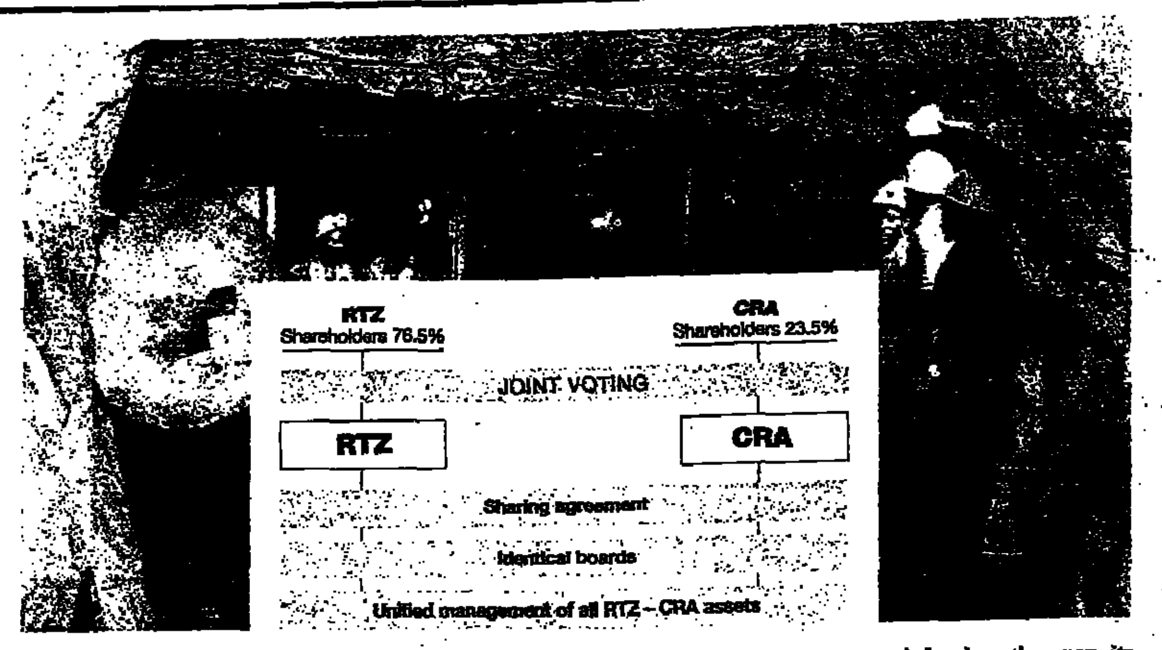
But Wilson thinks RTZ-CRA will be a tighter unit than any other DLC. It will have only one head office, in London, and the management organisation will be "exactly as if this was a single enterprise". Another key feature will be a joint voting agreement for the two companies' shareholders. This means that although shareholders will vote in their RTZ or CRA capacities, their votes will be for the group as a whole rather than for the individual companies. As well as creating more unity, this arrangement conforms to newly fashionable views on corporate democracy because it means that the unifying drive will come from the shareholders rather than the board and management.

Wilson says that the combination should also produce other advantages. The group will have much more flexibility to locate assets at the most suitable place within the overall structure. Management will also be able to draw on a wider pool of individual talent.

The two companies will produce unified accounts and will pay identical dividends which, as in other DLCs, will be backed by a financial equalisation agreement. This means each company will ensure that the other always has enough cash to fund its pay-out. So there is, technically at least, no reason why the two share prices should perform differently. However, they could diverge because of local market conditions or movements between sterling and the Australian dollar.

Shares in other DLCs do occasionally drift apart, but there are plenty of arbitragers in the market looking for trading opportunities, and any gap quickly gets pushed together again, according to stock analysts. Initially, though, the novelty and complexity of the RTZ-CRA arrangement could mean shares do not trade exactly as they should.

One possible drawback in the arrangement is that CRA shareholders will be locked in as a 23.5 per cent minority, so if their interests diverge from those of RTZ shareholders they would have difficulty getting things changed. However, RTZ's advisers say it is hard to envisage a situation where this would be a significant problem, and the group will have no dominant shareholders.



Royal Dutch Shell, the oldest dual listed company dating back to 1907, retains two parent holding companies with their own boards and shareholders. These own the operating companies on a 60:40 basis. The group is held together by various operating agreements. Overall strategic direction and management is provided by a committee of four managing directors, two from each side.

Unilever, established in 1930, is more tight-knit. The two companies are bound together by identical boards, combined management and an equalisation agreement which binds each company to help the other pay its dividend if need be. As with Shell, there is an overarching committee which consists of the chairmen of the two companies and one deputy chairman.

The structure proposed by RTZ-CRA is a variant on the Unilever model, with identical boards, a sharing agreement and unified management of the two companies' assets. Joint voting will mean that although RTZ and CRA shareholders will retain their separate identities, they will vote for the group as a whole.

A remedy for corporate anorexia

Companies fear they may have lost the ability to be creative, says **Christopher Lorenz**

The once fashionable idea that people can revitalise their health simply by taking a succession of desperate slimming cures has long been discredited. Only the gullible and misguided still fall prey to it. Yet precisely that proposition has gripped many American companies, and some supposedly more sanguine European ones, over the past five years.

Now, after an orgy of delayering, restructuring, downsizing and re-engineering – all too often merely a mask for job cuts – more and more companies are realising that they have landed themselves with a potentially lethal disease which will be exceedingly hard to reverse: corporate anorexia.

Whereas the term was almost unknown two years ago, there is now a growing chorus of concern about it among senior executives. They are worried that they have expended so much effort on increasing efficiency that their companies have lost the ability to be creative and to grow organically.

Two new academic studies document the extent of the problem, and suggest how – but only with considerable and continual effort – companies can overcome it.

A survey of 12 large US companies by Deborah Dougherty and Edward Bowman* concludes that downsizing tends to damage the product development process by breaking the network of informal relationships which is vital to getting innovations off the ground within any organisation. The researchers recommend devoting more resources to innovation even if the company is shrinking, and taking much greater care to retain people who have the experience and know-how to "work the system".

An altogether more far-reaching remedy for corporate anorexia – and the sclerosis which often accompanies it – is prescribed in the forthcoming issue of Sloan Management Review** by Christopher Bartlett and Sumantra Ghoshal, who have carried out a five-year research programme in 20 large US, European and Japanese companies. Their antidote involves the complete transformation of what they call a company's climate or "behavioural context" – all the small details which mould how the organisation feels and functions at every level, both formally and informally.

This does not mean, as in so many companies over the past few years, initiating a hectic succession of "culture change" initiatives and other programmes, many of which are short-lived, self-contradictory or both.

As the academics put it, many companies which have tried to "transform" themselves – from Digital, Westinghouse and Sears in the US to Mazda, Yamaha and Matsushita in Japan – "have woken up with little to show for it except a massive hangover". Their managers and other employees have grown punch-drunk with the constant succession of changes in strategy, structures, systems and ways of operating. "Not only have the organisations become too physically strained and emotionally exhausted to maintain the momentum of improvement, but employees' day-to-day behaviour has reverted to old, familiar patterns", say Bartlett and Ghoshal. The efforts of these and other companies have failed for various reasons, the academics suggest. In particular, they have not recognised the extent to which they have institutionalised an oppressive, authoritarian, "polluted" climate for their staff – what Bartlett and Ghoshal call a "context" of compliance, control, contract and constraint.

In stark contrast to this, vibrant organisations such as Intel, 3M, Arthur Andersen and Kao of Japan have developed a far fresher atmosphere based on a much healthier quartet of characteristics: self-discipline, support, trust and stretch. Such an environment triggers the entrepreneurship, collaboration and learning which are the foundations of continuous self-renewal.

Controversially, the academics suggest that such a climate can often be created without trying to change corporate culture as deeply as some companies have struggled to do, usually in vain. Instead of attempting the difficult task of altering people's basic attitudes, and the assumptions which underpin them, Bartlett and Ghoshal suggest it is often enough to change their work context, and thereby their behaviour.

Encouragingly for the mass of companies which can only dream of flying as high as Intel and co, the academics say they have found several cases in which a determined top management "was able to recreate such behaviours in stale, tired organisations in a relatively short time". Corning, the 100-year-old glass maker, has been transformed since 1987 under new leadership. From a demoralised company with a culture which epitomised compliance and control – but which failed to meet its corporate budget six years running – it has become far more self-disciplined, team-based, and dependent on personal relationships and trust. Its performance has benefited accordingly.

At a time when many western managers are complaining bitterly of rampant overwork and job insecurity, Bartlett and Ghoshal's emphasis on support, trust and "liberation" may sound somewhat hollow. Yet they insist that trust and support really do co-exist with discipline and stretch inside their model companies. It is the tensions between these four characteristics, they argue, which create the very power of this type of organisation.

The effects of organisational downsizing on product innovation. California Management Review, summer 1995.

***Rebuilding behavioural context: turn process re-engineering into people rejuvenation. SMR, autumn 1995.*

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ARTS

Dance

More than just another staged Event

Imagine a Shakespearean evening which *begins* with the Agincourt scenes from *Henry V* in rehearsal costume, and then, without a break or even a change of dress or lighting, goes into the final act of *The Winter's Tale*.

Suddenly, wearing a few extra items of everyday clothing, three of the performers deliver the closet scene from *Hamlet* – during the last section of which other performers, elsewhere onstage, launch into the casket scenes from *The Merchant of Venice*, which carry on blithely when the *Hamlet* performers have left the stage. Suddenly everyone, in costumes from *Antony and Cleopatra*, starts to deliver scenes from *Timon of Athens*... And so on.

Then imagine coming back to see the same show the next night and finding the same performers giving you a largely different anthology of material in partly different costumes. Oh, and imagine too that you have heard little or no Shakespeare before; and that no one is telling you where these scenes come from.

Merce Cunningham's "Events" are along these lines, only stranger. Few experiences in the arts today are more aesthetically bewildering; and almost nothing in the performing arts today is so fresh, or so definitively performed. And one Event feels nothing like the next, even when it contains much of the same material.

Cunningham makes his dances for individual new works of repertory; and a triple bill of recently made repertory will be performed this weekend at Sadler's Wells. But his Events include material from works that are no longer, or not yet, in repertory.

At Riverside Studios this week, it has been possible to see passages from a piece Cunningham has not yet completed, and from another that is 30-odd years old. Tuesday's opening-night Event contained almost nothing I remembered having seen before; at Wednesday's, however, I suddenly recognised much of *August Pace*, Cunningham's 1989 masterpiece, with its astonishing series of male-female duets for different performers.

Tuesday's was not a great Event. Too much seemed to be taken from the "quirky" or "character" section of repertory in which the dancers perform deadpan accounts of droll passages in sneakers or baggy sweaters. Fun stuff, but far from the stratosphere.

It served best to introduce London to Cunningham's present troupe of dancers, most of whom have joined the company since its last London season three years ago. Five of the dancers are known here, however; and brief solos for Frédéric Gafner and Jennifer Weaver showed us, or reminded us, that they are among the world's most phenomenal performers.

Gafner is fast and witty. To watch the pouncing way with which, after the climax of a jump, he brings his feet together before landing is a keen delight. Weaver is strong, with very commanding legs and feet. To see the power with which her legs swing outwards and upwards in *grand battement* is one thrill, to watch her hold those legs outstretched in the air like searchlights is a greater thrill, but most wonderful of all is to watch the absolute control with which she lowers them, oh so slowly, back to the floor.

Kimberly Bartosik, though she has been dancing with the company since 1988, brings to everything she does an innocence that refreshes the whole world onstage. Softly aware of others around her and of the audience, she is a dancer who creates an atmosphere around and beyond the steps she is performing.

These three exemplify separate styles of performance, and yet they belong with equal ease to Cunningham's eclectic style; as do those other seasoned artists, the firm and tense Michael Cole, and the sombre, eccentric but intense Robert Swinston. But Cunningham's newer dancers are all clearly distinct individuals too: among whom Thomas Caley – accomplished and sly, a riveting soloist and a marvellously attentive partner – is the most exceptional.

China Laudisio, cool and punchy, and Banu Ogan, an elegant presence who becomes twice as glamorous when dancing alone, are also important additions to the company. Glen Rumsey, Jared Philips and Matthew Mohr already bring interestingly serio-comic qualities to their material; and then there are others I have not yet been able to identify by name.

Wednesday's Event gave them all more scope. You could see them recognising and grasping the new opportunities; and it was therefore altogether more – forgive the pun – eventful. Now we seemed to be watching fish in an aquarium; now a bizarre vignette of social dancing; now male-female duets as grand and precise as confrontations in Racine; now antelopes alternately grazing and bounding.

And yet the space at Riverside Studios is intimate. The audience sits close to the stage, and can watch the "offstage" area (in which, beside the coolly occupied musicians, the dancers rest, wrap themselves up, observe the stage, and occasionally get the giggles). Nothing could be less like the Events in Paris on which I reported this August, which occurred on a specially constructed stage in the courtyard of the Palais Royal beneath the night sky.

But the quintessential Cunningham paradox is the same. All you see are calm, frank dancers delivering an array of changing rhythms and phrases. How odd, you think, again and again: who else would have thought of putting *that* movement next to that one? (Or amid *that* music?)

And yet oddity is not the final impression Cunningham leaves in the mind. Somehow all the ironies add up into a picture of life: surprising, and fresh and multi-faceted. How natural, you think; and your imagination soars.

Alastair Macaulay

The Merce Cunningham Dance Company dances three works of repertory at Sadler's Wells tomorrow and Sunday.

Alastair Muir

Members of the Merce Cunningham Dance Company at the Riverside Studios

Balanchine legacy brings ballet back to life

To the near-capacity audiences at Washington's Kennedy Center last week, the two-programme season called "Suzanne Farrell Stages Balanchine" probably looked like just a series of wonderful ballets, wonderfully danced. Which it was, but it was something else as well: an implicit announcement that George Balanchine's works will outlive their maker.

In the past decade the future of those works has been the most pressing question in American ballet. When Balanchine died in 1983, the direction of his troupe, New York City Ballet, passed to Peter Martins, the Danish virtuoso who had dominated it in the 1970s. And soon the Balanchine ballets started to fall apart on the company's stage. Technical problems crept in: teetering pirouettes, vanishing turnout. At the same time, the ballets began to lose their emotional force.

Meanwhile, the company seemed to be hastening the change by pensioning off coaches and teachers who had danced under Balanchine and thus might have been able to pass on his way of dancing. The biggest shock came in 1993, when Suzanne Farrell, Balanchine's leading dancer of the 1960s and 70s, was told that the company no longer required her services. She went off to set Balanchine's ballets on other companies. Hence, the Kennedy Center season.

Now and then during the past decade there have been excellent stagings of Balanchine ballets. And however scrupulous the stagings, the leads were the principal dancers of regional companies, a term that, no matter how altered America's non-"regional" (that is, New York) companies are, still has a meaning. Never until the Farrell season have we seen, outside NYCB, so concentrated a group of Balanchine works – *Mozartiana*, *Monumentum/Movements*, *Chaconne*, *Scotch Symphony*, *Slaughter on Tenth Avenue*, *Tzigane* – staged on actual stars, or some stars.

Using Washington Ballet to supply her corps and soloists, Farrell hired most of her principal dancers from outside: Peter Boal and Helene Alexopoulos from NYCB; Maria Calegari, formerly of NYCB; Susan Jaffe from American Ballet Theatre; the Kirov-trained Elena Pankova, now with the Bavarian State Opera Ballet; Tamas Detrich and Marion Jäger from the Stuttgart Ballet; Marie-Christine Mouis, formerly of Boston Ballet. I have seen most of these dancers before, and there is not one who, under Farrell's coaching, did not become something greater – more expansive, more subtle – than he or she had been. In the process, the ballets came to life.

The most moving sight was Maria Calegari. During the post-Balanchine years at NYCB, this magisterial dancer became increasingly distracted on stage. Finally, a year ago, she resigned from the company. Yet here she was again, in *Monumentum/Movements*, with all her nobility restored. Almost as surprising was Helene Alexopoulos, a beautiful but often recessive dancer. In *Slaughter on Tenth Avenue* she tore up the place. The most amazing change, however, was in Susan Jaffe. Like Alexopoulos, Jaffe is an important dancer with a big fault, in her case, a tense overstudiousness. And in *Mozartiana* she was all wit and spontaneity. From now on, none of these women should go anywhere without Suzanne Farrell.

In a lecture-demonstration in Washington, Farrell recalled that Balanchine, in rehearsing a ballet, made everyone, down to the last corps dancer, feel "special". This apparently anodyne observation may hide an important truth. Not just in Balanchine's stagings but now in Farrell's, the dancers seemed to feel privileged, trusted, and so they became happy and free. Marion Jäger of Stuttgart was miscast in Chaconne – what was supposed to be legato came out staccato – yet through her sheer zest, her belief in herself and in the ballet, she still somehow delivered Chaconne.

A few days before the opening of the Kennedy Center season, Miami City Ballet appeared at the State University of New York at Purchase, just outside New York, in a single performance including Balanchine's *Agon*, recently staged on the troupe by Farrell. *Agon* is a hard ballet, and the cast included no imported stars, just 12 young dancers. Watching them, I wondered whether NYCB in its early days might not have looked like this: lacking in certain refinements, but innocent and engaged. The dancers concentrated on the steps, and so the audience concentrated too, and saw *Agon* as if for the first time.

For years it was said that Farrell, however great a dancer, could not pass on what she had learned from Balanchine – that her bond with him, which in its early stages was also a romance, was too fiery and personal to be shared. That was before she tried it. Her Balanchine stagings of the past year stand as a bright spot of hope in what has been, for the most part, a dark decade in American dance.

Joan Acocella

Distinguished story of Hal

Ian Shuttleworth looks at a condensed drama of Henry IV

The BBC's *Performance* strand this autumn includes the corporation's largest Shakespearean dramatisation since the "Complete Works" project a decade ago. *Henry IV* is an ambitious attempt to forge a single 2½-hour television drama out of Shakespeare's two-part work, with additional material from *Henry V*, *Richard II*, *Henry VI part 3* and even *The Merry Wives of Windsor*.

The cast assembled by director/adapter John Caird and producer Annie Castledine is breathtaking: Ronald Pickup as the King, David Calder as Falstaff, Rufus Sewell as Hotspur, Jane Horrocks as Doll Tearsheet, Paul Eddington as Justice Shallow as well as Corin Redgrave, Peter Jeffrey and John Woodvine. Jonathan Firth, who plays Prince Hal (later King Henry V) confessed to being overawed himself: "I'm gaping at all these people; it's extraordinary."

Simon McBurney of Théâtre de Complicité (who claims, bizarrely, that his performance as Pistol is based upon nightclub owner Peter Stringfellow) agrees. "That diversity of background is what's nice, because it's throwing up questions in rehearsal, with people saying, 'That's a bit RSC', quite unabashed, and Jane Horrocks going 'So, what's it all about then?', cutting through it all.

Castledine, in her first enterprise as a television producer, is passionate about wanting "to reach those people who don't give themselves permission to switch on BBC2".

Castledine questions the image of the internal-market-driven BBC: "There's still idealistic, philosophical dialogue going on here at every opportunity, even if it isn't necessarily manifested in product. [The heads of drama] are in a schizophrenic state because they're at war with those very values which they still believe in and which brought them here."

However, the axe of "rationalisation" has fallen in one area: *Henry IV's* impressive set is the last one to be built in the BBC's own workshops. "I really don't understand things like that," says Firth. "They had these wonderful workshops right next door to where you rehearse, so if you had a problem you could go down and have a look at the set; it's a wonderful space to build something and it's the last thing they're ever building there. It's infuriating."

Any conflation of the various Falstaff stories inevitably draws comparison with Orson Welles's *Chimes At Midnight*. Caird acknowledges: "I looked closely at the script in order to give myself courage for the sort of radical cutting I had to do. It's really a very good text; it's very self-serving for Orson Welles – and why not? – but I've tried to tell the Hal story, the Henry story, the Falstaff story and the Hotspur story with equal power."

In compressing some 6½ hours of drama for the small screen, much of the grand scope is inevitably lost. McBurney admits to feeling ambivalent about the process: "Reading it I had certain reservations that either you attempt to be more complex by being faithful or you attempt to be more radical, and so I felt this was a middle way and I'm waiting to see what will happen.

"When it is conflated you have to hold on to the humanity so that it doesn't just become a cartoon exterior. In rehearsal it felt that we were all swimming around a bit as a result of that, because the great epic structure of the original allows a particular kind of breath. But I think if this succeeds it will succeed best on the human level."

It is the humanity of the characters that John Caird feels is the backbone of this version. "What's always fascinated me about these plays is the way in which they are so domestically framed. Most of the other history plays are much more epic constructions; they take in the great Shakespearean themes of kingship and honour as do these plays. But these are cousins of *As You Like It* and *Twelfth Night* in their domestic scale and the way in which the characters reveal themselves to the audience.

"What I wanted to concentrate on was the theme of fathers and sons, inheritance, the passing of the generations, all those things to do with the way time passes for people. What I've gotten rid of is all the political shenanigans: basically I've cut out almost everybody with the name of an English county. The adaptation is based on the notion that people watching it don't know anything about the plays in the first place."

David Calder, however, sees more in Falstaff than the jolly knight. "Of course [*Chimes*] is there and the first thing you say is, 'Whatever you do, don't watch it'. When you're asked if you'll play Falstaff, you immediately say, 'Yes!' and then think, 'Christ! *How?* Who is this guy?' And with a part like that all those comparisons can become odious; you have to forget the lot, start with the story as you have it and play that."

Similarly, Rufus Sewell thinks that even with cutting, the part of Hotspur has not been homogenised. "The way it's structured is that as soon as you are starting to get sympathetic with Hotspur he says something daft and it gets rebalanced quite cleverly: as soon as he's beginning to look too heroic, a bit of a dickhead pops out to calm it down slightly.

"I think one of the strengths of John Caird's adaptation is that the through lines are that much simpler for slightly less bright actors! It's really remarkably clear."

The last word about the flagship nature of the work goes to Annie Castledine. "It's an event: [Controller of BBC2] Michael Jackson's going out on a limb, and I think that's fine. You've got a lot of artists at work here, and an attempt has been made to make it as entertaining and powerful as possible."

Henry IV will be transmitted by BBC2 in the Performance strand tomorrow at 8.10pm.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

GALLERIES

Rijksmuseum Tel: (020) 673 2121
- The Portrait: drawings, prints and photos spanning some 500 years. Artists include Van Gogh, Rembrandt and Gaugin; to Oct 29

Stedelijk Tel: (020) 573 2911
- 100 Years: three exhibitions to celebrate 100 years of the Stedelijk. On show is art from the Regnault Collection which includes the likes of Kandinsky, Chagall and Chirico plus specially commissioned work for the centenary; to Oct 29

OPERA/BALLET

Het Muziektheater Tel: (020) 551 8922
- Moses and Aaron: by Schoenberg. A new production directed by Peter Stein and conducted by Pierre Boulez. Soloists include David Pittman-Jennings as Moses and Chris Merritt as Aaron; 8pm; Oct 28

BALTIMORE

THEATRE

Center Stage Tel: (410) 685 3200
- Don Juan: by Moliere in a translation by Christopher Hampton and directed by Irene Lewis; 8pm; to Nov 5

FRANKFURT

CONCERTS

Alte Oper Tel: (069) 134 0400
- City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts Beethoven's "Symphony No.1" and "Symphony No.3"; 8pm; Oct 31
- State Orchestra of Dresden: Giuseppe Sinopoli conducts Busoni, Schoenberg, and Tchaikovsky; 8pm; Oct 30

LONDON

CONCERTS

Royal Opera House Tel: (0171) 304 4000
- Manon: directed and choreographed by Kenneth Macmillan to the music of Massenet and conducted by Barry Wordsworth; 7.30pm; Oct 27, 30; Nov 1, 2
- Swan Lake: choreographed by Marius Petipa and Lev Ivanov. Vikotor Fedotov/Anthony Twiner/ Barry Wordsworth conducts Tchaikovsky; 7.30pm; Nov 3, 4 (7pm)

GALLERIES

Hayward Tel: (0171) 261 0127
- Art and Power: examination of the relationship between art and politics in the 1930s and 1940s Europe where culture became an arena for the struggle between communism and fascism; from Oct 28 to Jan 21

OPERA/BALLET

English National Opera Tel: (0171) 632 8300
- Rusalka: by Dvořák. Conducted by Richard Hickox and directed by John Lloyd Davies. Soloists include Susan Chilcott, David Maxwell Anderson and John Connell; 7pm; Oct 27
- The Barber of Seville: by Rossini. Conducted by Jane Glover and directed by Henry B. Little from the original direction by Jonathan Miller. Soloists include Alan Opie, Jean Rigby/Fiona James, Charles Workman and Gordon Sandison; 7.30pm; Nov 2, 4
- The Fairy Queen: by Purcell. A new production conducted by Nicholas Kok and directed by David Pountney. Soloists include Yvonne Kenny, Janis Kelly, Mary Hegarty and Yvonne Barclay; 7.30pm; Oct 28, 31; Nov 3

Royal Opera House Tel: (0171) 304 4000
- Götterdämmerung: by Wagner. A new production directed by Richard Jones and conducted by Bernard Haitink. Soloists include Deborah Polaski, Vivian Tierney, Jane Henschel and Judith Howarth; 4.30pm; Oct 28 (4pm), 31

THEATRE

National, Lyttelton Tel: (0171) 928 2252
- La Grande Magia: by Edouardo de Filippo in a translation by Carlo Ardito. Richard Eyre directs Alan Howard and Bernard Cribbins in de Filippo's comedy; 7.30pm; Oct 30, 31; Nov 1 (2.15pm), 2

LOS ANGELES

CONCERTS

Dorothy Chandler Pavilion Tel: (213) 365 3500
- Los Angeles Philharmonic: with violinist Joshua Bell. Franz Welser Möst conducts Hindemith, Sibelius and Shostakovich; 8pm; Oct 27, 28 (2pm), 29 (2.30pm)

MADRID

GALLERIES

Fundación Arte y Technologica Tel: (041) 522 6645
- Incorporeo: installation by Daniel Conogar; to Oct 29

Prado Tel: (91) 420 2836
- Francisco Bayeu (1734-1795): 72 sketches by the 18th century artist who was responsible for many of the frescos in the Royal Palace of Madrid; to Oct 29

MUNICH

OPERA/BALLET

Bayerische Staatsoper Tel: (089) 22 13 16
- Anna Bolena: by Donizetti. Conducted by Fabio Luisi and produced by Jonathan Miller. The cast includes Edita Gruberova, Vesselina Kasarova, Anne Salvan and Roberto Scandiuzzi; 7pm; Oct 30; Nov 2

NEW YORK

CONCERTS

Carnegie Hall Tel: (212) 247 7800
- Pittsburgh Symphony Orchestra: with flutist James Galway. Lorin Maazel conducts Gould, Mercandate, Maazel and Bartok; 8pm; Oct 27
- Pittsburgh Symphony Orchestra: concert performance of Wagner's "Tristan and Isolde" with conductor Lorin Maazel. Soloists include Carol Yahr, Heinz Kruse amd Falk Struckmann; 8pm; Oct 28

OPERA/BALLET

New York City Opera Tel: (212) 307 4100
- Carmen: by Bizet. Conducted by Andreas Delfs and produced by Jonathon Eaton; 8pm; Oct 28
- La Bohéme: by Puccini. A new production conducted by Christopher Keene and directed by Graziella Sciutti; 8pm; Oct 29 (1.30pm); Nov 2
- Temple of the Golden Pavilion: by Mayuzumi. A new production directed by Jerome Sirlin and conducted by Christopher Keene. Based on a novel by Yukio Mishima in an English translation by Christopher Keene; 8pm; Nov 3
- The Magic Flute: by Mozart. Conducted by Randall Craig Fleischer and produced by Lotfi Mansouri; 1.30pm; Nov 4
- Turandot: by Puccini. Conducted by Guido Ajmone-Marsan and produced by Jonathan Eaton; 8pm; Nov 1

PARIS

GALLERIES

Centre Georges Pompidou Tel: (1) 42 77 12 33
- Hybert, Quardona and Roudenko-Bertin: running in conjunction with "Feminine-Masculine", three artists of different styles produce works that demonstrate the relationship between sex, the body and sexual differences; to Jan 1

Centre National de la Photographie Tel: (1) 53 76 12 31
- Martin Parr: British photographer uses motorists and tourism for his inspiration; to Oct 30

Galerie Schmit Tel: (1) 42 60 36 36
- "La Femme": from Corot to Chagall. 60 paintings dating from 1824-1949 by artists such as Degas, Gaugin, Picasso and Renoir; to Feb 28

OPERA/BALLET

Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
- Eugène Onégin: by Tchaikovsky. A new production produced by Willy Decker and conducted by Alexander Anissimov. Soloists include Gerlinde Lorenz, Solveig Kringelborn/Galina Gorchakova, Anthony Michaels-Moore; 7.30pm; Nov 4
- Les Variations D'Ulysee: a new production choreographed by Jean-Claude Gallotta to the music of Jean-Pierre Drouet; 7.30pm; Oct 29 (3pm)

WASHINGTON

CONCERTS

Kennedy Center Tel: (202) 467 4600
- National Symphony Orchestra: Sir Neville Marriner conducts Bartók, Mozart, Nelson and Beethoven; 8.30pm; Oct 27, 28
- Pittsburgh Symphony Orchestra: with pianist Hae-Jung Kim. Alexander Dmitriev conducts Tchaikovsky's "Piano Concerto" and "Symphony No.4"; 8.30pm; Oct 30

THEATRE

Ford's Theater Tel: (202) 347 4833
- Elmer Gantry: Michael Maggio directs this revival of the Pulitzer Prize winning novel by Sinclair Lewis with libretto by John Bishop and music by Mel Marvin; 7.30pm; to Oct 29

WORLD SERVICE

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10.00
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Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Wanted: Middle East development bank

PERSONAL VIEW

If peace in the Middle East is to become a reality in the lives of the people of the region, it has to be nurtured by creating an institutional framework within which they can co-operate economically and politically. That is what happened in Europe after the second world war, and that is what should happen in the Middle East now.

It goes almost without saying that economic improvement in the region will come most of all from the pursuit of the right domestic economic policies in each country. The region also needs a framework that will encourage regional trade, private investment, regional projects, and co-ordination among policymakers and technical experts.

The Egyptians, Israelis, Jordanians and Palestinians are proposing the creation of a regional development bank as one of the key elements in the structure of the new Middle East. The US has taken the lead in promoting the bank, which is also supported by other countries.

The bank would carry out programmes to support private sector development and cross-border infrastructure to promote regional integration. It would, in particular, seek out projects that contribute to regional trade and investment, for instance in transport and communications.

Drawing on the lessons learned from the European Bank for Reconstruction and Development, it would also foster private sector development by providing debt and equity financing for private sectors in the region, and by helping provide the expertise for improving capital markets. It would in addition have the authority to issue guarantees.

Also located within the bank would be "the Forum", a body like the Organisation for Economic Co-operation and Development that would provide the venue for high level policy discussions and co-ordination.

The bank (including the Forum) would serve as the key institution for region-wide development. As in the case of existing development banks, the bank would have both regional and non-regional members.

The strong participation of non-regional members is essential as evidence of their continuing commitment to the region, to help the credibility, effectiveness and accountability of the bank. The establishment of a bank with major external support would also provide reassurance to private investors.

The proposal to establish a bank is opposed by those who ask why the world needs another development bank. A year ago, the war cry of this group was "Remember the EBRD!". But Europe has clearly benefited quickly from its own regional development institution. Already, the EBRD

We need to send a signal to the region that there will be further peace dividends

is associated with one out of every seven dollars of investment inflow to central and eastern Europe.

Just as in Europe, Asia, Africa and Latin America, the real reason for creating a regional bank is to establish a framework within which regional co-operation can flourish. That cannot be done in the context of the World Bank – notwithstanding its important role in the region. It can be done in a regional development bank, augmented by the Forum. A Middle East Bank, by contrast with the World Bank, will belong to the region, and will be focused on the development of the region.

An alternative approach to institution-building in the region would focus on the Forum and leave decisions about the bank till later. The argument is that it will take too long to set up the bank for it to have any immediate impact, and that it is therefore better to start with the Forum, augmented by a project preparation and identification facility. This facility would identify projects that could be financed by the World Bank or other existing institutions.

Which is the right approach? The alternative approach has the benefit of starting small, and being correspondingly cheaper. If all goes well, it could grow into a larger and more ambitious institution, perhaps a regional bank. It has the further benefit that failure would be less noticeable. But that is also a cost, for the longer the bank is delayed, the less likely it is to be created.

The bank (cum forum) is more ambitious. It would be action-oriented, having to plan and efficiently carry out projects and support private sector deals. The OECD grew out of the more action-oriented Organisation for European Economic Co-operation, which was set up to help co-ordinate Marshall Plan aid.

Mr Shimon Peres, the Israeli foreign minister, is surely right when he says that co-operation in water and tourism can do for a post-conflict Middle East what co-operation on coal and steel did for a post-war Europe.

The first fruits of peace are beginning to appear in the Jordanian economy and in Gaza and in the West Bank. At the Amman summit this weekend, it is necessary to send an early signal to the entire region that there will be further peace dividends.

That is an additional reason why there is a need to be more ambitious and to begin now the process of establishing a regional bank.

The story is told of the great French Marshal Lyautey, who once asked his gardener to plant a tree. The gardener objected that the tree was slow-growing and would not reach maturity for a hundred years.

The Marshal replied, "In that case, there is no time to lose, plant it this afternoon." In this case, it should take only a few hundred days, but that is the right way to think about the establishment of a regional bank in the Middle East.

Lawrence Summers and Joan Spero

Mr Summers is US deputy treasury secretary. Ms Spero is US under-secretary of state for economic, business and agricultural affairs.

Poor harvests and shrinking stocks worldwide are boosting cereal prices, says **Alison Maitland**

Rewards reaped in grain market

The Organisation for Economic Co-operation and Development is not known for being caught out by events. Yet the strong rise in grain prices this year has taken it by surprise.

This month the forecasting body published its first report, finalised in June, on the impact of the Uruguay Round trade deal on agriculture. The study predicted world wheat prices would rise to the end of the century, but not enough to enable the European Union to export wheat without subsidies.

In fact, 20 years of EU export subsidies came to a halt in July, when poor grain harvests around the world and a sharp fall in stocks pushed global prices into line with the normally inflated EU market.

The European Commission has now made legislative provision for wheat exports to be taxed next month to protect domestic supplies. This would be the first time levies have been used since the "Great Grain Robbery" in the early 1970s, when Soviet demand threatened to overwhelm the market.

Subsidies have also been withdrawn in the US, where wheat is being exported at nearly $200 a tonne – almost 70 per cent above the traded price in mid-April when the market began to move up.

Grain has become the hottest property on food commodity markets, with wheat futures in Chicago reaching 15-year highs.

The Economist Intelligence Unit says US wheat prices could break all-time records in the next six months and predicts a supply crisis if harvests in Argentina and Australia follow the disappointing pattern of northern hemisphere producers.

The unexpected squeeze has provoked an outcry from livestock farmers who use grains for animal feed. It has also forced governments in the EU and the US to review policies designed to cut the grain mountains of former years by leaving arable land idle.

Together, the US, Canada, EU, Argentina and Australia account for nearly 90 per cent of world trade. This year's US wheat crop is expected to be the smallest for four years because of unfavourable weather, and the maize harvest is estimated to be down a quarter on last year's crop. In the EU, Spanish cereals were devastated by summer drought. Argentina, which still has its harvests to come, has been suffering its most severe drought for 40 years and Australia has been affected by dry conditions.

Demand, meanwhile, is increasing. Russia faces its worst harvest for 30 years and may turn to the world market for imports. China's needs, worsened by a shortage of water, are expected to exceed the 10m tonnes of wheat it imported last year.

World grain stocks were already under pressure following poor harvests in a number of big producing countries over the past two years. The London-based International Grains Council, which monitors the world cereals market, predicts world wheat stocks will fall to 92m tonnes – their lowest level for 20 years – by the end of the crop year next spring. In the EU alone, a grain mountain of 33m tonnes two years ago has been knocked down to just 3m tonnes.

The position has been made worse because most cereals have been affected by crop failures and higher prices, so wheat users have been unable to switch easily to cheaper alternatives for animal feed.

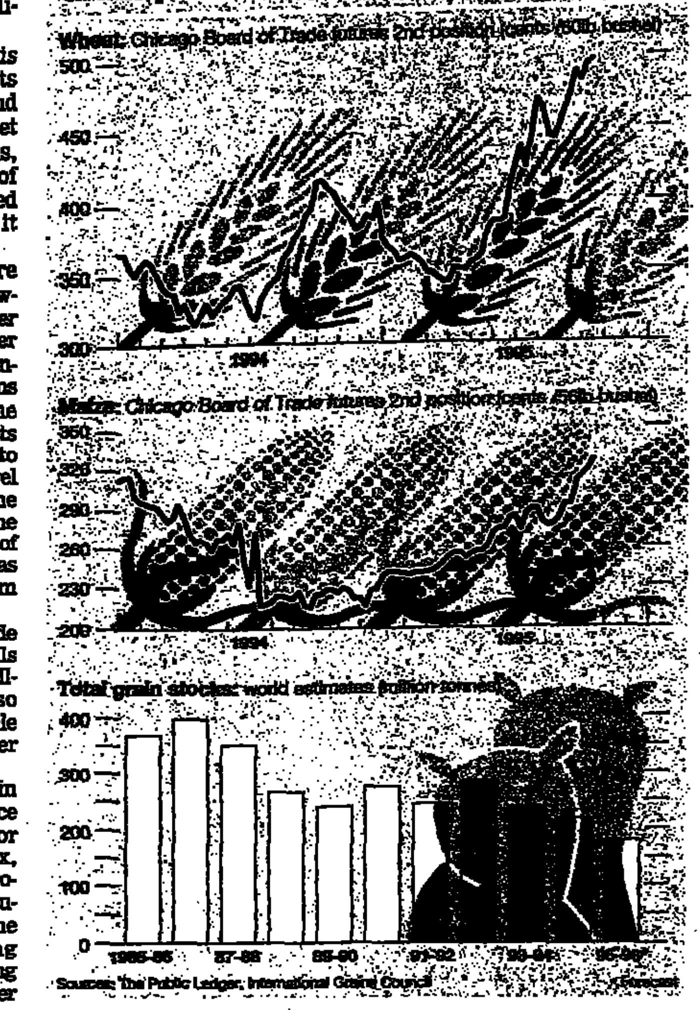
Poultry and pig producers in Europe are furious. Mr Patrice Bouchet, feeds manager for Brittany-based Le Doux, Europe's biggest poultry producer, says: "All our opportunities for competing on the world market are being removed. Politics is destroying all the work we have done over the last few years."

He blames US investment funds for adding speculative froth to already high grain futures prices. But he also takes issue with the EU's Common Agricultural Policy, which pays cereal farmers to keep land out of production and cushions them with direct aid so that they can afford to hold on to their grain until prices move even higher.

Livestock farmers have been pressing for the abolition of the set-aside policy. EU farm ministers last month settled for a cut in the set-aside rate from 12 per cent of a farm's arable acreage this year to 10 per cent next year. The European Commission urges caution to avoid a resurgence of grain surpluses which could threaten the EU's commitments to cut subsidised exports under the Uruguay Round deal.

A similar debate is raging in the US over land which farmers are paid to leave fallow for 10 years for environmental purposes under the Conservation Reserve Programme. About 36m acres have been set aside and there is pressure on the administration to pay farmers to put some back into production. Short-term set-aside has not operated for wheat for three years, but maize farmers have been subject to a 7.5 per cent rate and pressure is mounting for this to be lifted.

Consumers in the developed world may face increases in poultry and bread prices in coming months. Bernard Matthews, the biggest turkey producer in Europe, says its prices could rise in the new year. Feed accounts for 65 per cent of the cost of raising an oven-ready bird, with wheat accounting for over half the feed mix. "Feed prices are increasing beyond what anybody expected," says Mr David Joll, managing director of Bernard Matthews.



However, the main victims of high grain prices are developing countries, which account for more than two-thirds of world wheat trade. The Food and Agriculture Organisation says many poor "food-deficit" countries may be unable to finance the additional cereal imports they need, which it estimates will cost about [illegible] – or 25 per cent more than they paid last year.

Some better-off developing nations appear to have held back from importing in the hope prices would fall, but are now leaping into the market before prices move higher still. Egypt recently bought a hefty 700,000 tonnes of unsubsidised wheat from the US.

The organisation says next year's harvest "will be crucial for world food security". Cereal output must rise by 5 per cent to meet expected demand. Replenishing stocks to "minimum safe levels" would need an 8-9 per cent increase in production.

Given the evident pitfalls, it is hard to pin down forecasts for next year's world output, although crops are expected to be bigger in the US and the cut in set-aside will boost EU production.

A better harvest would take the heat out of the market. The OECD could turn out to be right in its medium-term forecast that export subsidies will be in place at the end of the decade, if not sooner. On the other hand, the Economist Intelligence Unit warns that "any hint of availabilities falling short of needs [next year] will bring speculators into play and cause further price escalation".

Other forces are at work. Demand for cereals from fast growing Asian countries could offset crop increases and keep stocks tight. The export trade is pinning its hopes on China expanding its livestock industry and coming to the world market for ever bigger supplies of animal feed.

Mr Robert Kohlmeyer, vice-president of World Perspectives, a Washington-based agricultural trade consultancy, does not expect EU and US export subsidies to resume until at least next summer, after this year's crop is safely gathered in.

"We might go through 18 to 24 months without the use, or the widespread use, of export subsidies," he says. "It's quite likely we're in a situation that will require more than just a single good crop year to recover from."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

Quebecers would have to pay a heavy price for independence

From Mr Mark Oakes.

Sir, A Yes victory in the Quebec referendum will take a staggering toll on the province and Canada. On Tuesday the dollar suffered a severe market slump fuelled by worries about the referendum. If Mr Lucien Bouchard, leader of the Bloc Québécois, wins, these fears would be magnified beyond imagination.

Canada as we know it would cease to exist. Canadians would hardly be in a mood to negotiate with the separatists, let alone embrace a new partnership with them. And it is questionable whether Ottawa could do so legally. Even if it did, the complex negotiations that would be needed to reach agreements on everything from trade to allocating Quebec's share of the national debt would take years.

Meanwhile, the newly independent country (and Canada too) would suffer a recession unlike any it has seen before. Quebecers would pay a heavy toll in higher taxes, lost jobs and higher unemployment.

Fourteen per cent of Quebecers are still undecided. One can only hope they vote No. Then, maybe, Quebec and the rest of Canada can get on with building a better, more equitable country, as true partners.

Mark Oakes,
9 Owlets Hall Close,
Harold Wood,
Hornchurch, Essex, UK

From Mr John Godfrey.

Sir, Every argument in your editorial "The trouble with Quebec" (October 25) could be applied to the debate over Scotland's future in the UK.

Your conclusion – "where ... restlessness mingles with nationalism, the combination is corrosive if not explosive? – surely highlights the danger of the centrepiece of Labour leader Tony Blair's election programme, namely the creation of a Scottish parliament. This purportedly gradualist measure will surely fan the flames of the Scottish Nationalist Party's separatism just as the various accommodations of Québécois sentiment have in Canada, with corrosive and explosive results.

John Godfrey,
W. Garden Lodge,
Abercairny,
Crieff, Perthshire, UK

Reappearance of Thalidomide is galling

From Mr Christopher Lingard.

Sir, It is not just the Canadian victims of Thalidomide who are "outraged" by its reappearance ("Thalidomide takes on Aids", October 24).

As a UK victim, I am outraged that the media should repeatedly allow the drug companies the opportunity to rehabilitate Thalidomide's reputation simply so that they can make a financial killing from its comeback as a "wonder drug".

This is particularly galling when the UK victims are still battling for realistic compensation some 30 years after the tragedy. The Canadian victims were at least fortunate enough to live in a jurisdiction which awarded them on average ten times as much compensation as did the courts in the UK.

Perhaps the answer is for the present day purveyors of Thalidomide to use some of their profits to set up a funds for victims of Thalidomide, past, present, and future.

Christopher Lingard,
Thalidomide Action Group,
Woodbine Orchard,
Greenwith, Perranwell,
Truro, Cornwall TR3 7LX, UK

Business locations seem somewhat out of date

From Mr Hugh Mason.

Sir, Your business locations survey (October 24) stresses the importance of choosing the right site. One therefore trusts the illustration alongside is not meant to show how it is to be done, since the bright-eyed young executives appear to be indicating on their 55-year-old map that Vichy France is a good location for investment.

Hugh Mason,
32 Chelsea Road,
Southsea, Hants PO5 1NJ, UK

Answer to gas contract problem

From Mr Patrick Heren.

Your timely articles ("Regulator warns on gas contrasts", and "Competitors turn up the heat", October 25) on British Gas's take-or-pay problem ignores the fact that British Gas is, as it were, the self-consumer of its woes. Its upstream arm, British Gas Exploration and Production, is the largest producer of gas on the UK continental shelf, nearly all of it sold under long-term contracts with British Gas. The largest single UK gas field is Morecambe, owned and operated by BG E&P.

Morecambe alone represents 15 per cent of UK gas production. The price of Morecambe gas is considerably higher than British Gas's weighted average cost of just under 20p per therm. In part this is because Morecambe provides British Gas with much of its winter peak supply. But it is also a legacy of an earlier round of political tinkering in the gas business, when the government was fattening British Gas for privatisation: it was deemed appropriate for British Gas's supply department to pay a premium price for Morecambe, at the expense, as usual, of the British consumer. If British Gas wants its third party suppliers to renegotiate their long term contracts, it should begin with BG E&P and Morecambe.

Patrick Heren,
Publisher,
British Spot Gas Markets,
7 Old Town,
London SW4 0JT, UK

Charges, more than costs, are out of control in US healthcare

From Mr Harold L. Krivoy.

Sir, Michael Prowse's article, "Gingrich is good for healthcare" (October 16) is a dangerous deception. Here in America we badly need healthcare reform. I hope that some day it will result in something like the Canadian system for all residents. The attempted destruction of Medicare, now under way, aims to systematise the redistribution of medical support funds for about 30m members of the plan and to dump those funds into a general receptacle where they can be accessed in order to hide tax gifts to the wealthy.

The characterisation of Health Maintenance Organisations by Prowse is false. A few large customers (industries) were able to negotiate HMO charges which went up very slightly from last year to this. But the members, their employees, have no option to move into a more advantageous plan. And we old folk, if dumped into HMOs, have no protection from their actions.

Prowse sees Medicare costs as being "out of control". He needs to admit that medical care charges have increased by 1,000 per cent or greater since 1970; a period in which most cost-of-living indices went up by 300 per cent. So I must insist that charges are different from "costs" and "spending" and that the 1,000 per cent represents an immoral overcharge by hospitals, nursing homes, medical professionals, drug companies, insurance companies... and, now, HMOs.

After the Contract with America has run its course, we will still have 40m uninsured or under-insured adults, as well as the 30m retirees attempting to squeeze health care out of a system (HMOs) in which the doctor is never the same, the charges are out of control and requests for "specialists" are adjudicated by some clerk-typist.

I hope the UK will continue to enjoy the NHS; I feel sure that any problems it has can be corrected short of the mess that the US is in.

Harold L. Krivoy,
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FINANCIAL TIMES

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Friday October 27 1995

Italy's cycle of crises

Of the possible courses Italy's latest political crisis could take, the one set yesterday – with Mr Lamberto Dini's "technocratic" administration continuing to the end of the year, and elections to follow, probably next spring – looks the least bad.

Had the vote of no confidence proposed by Mr Silvio Berlusconi and his centre-right allies brought down the government, the result would have been disorder on all fronts: a country without a budget for next year, headed for elections without fair rules and unlikely to produce a clear result.

On the other hand, to extend Mr Dini's prime ministerial mandate beyond the year-end would have been to perpetuate a weak government with little chance of securing further important reform. Such a consideration outweighs any perceived advantage to postponing elections until after Italy's forthcoming European Union presidency: Rome will have little to contribute whoever is in charge.

Following yesterday's unlikely parliamentary deal with the old-style Rifondazione Communista party, Mr Dini at least has a chance of bringing his term to an orderly conclusion. Though it sprang from inauspicious origins, his government has solid achievements to its credit – notably the start it made in reforming Italy's Byzantine state pensions system.

But it was never seen by the main political parties as more than a stop-gap, and its fate was sealed the moment Mr Dini started to behave as if he enjoyed power in his own right. The past week's ill-tempered row over the dismissal of his justice minister was merely the *coup de grâce*.

Recent events, in fact, confirm that Italy's political and economic crises move in a cycle. As public finances worsen and markets panic, discredited politicians turn in desperation to a government of "technocrats" with the task of getting a grip and steadying nerves. When the financial situation stabilises and technocrats show signs of getting above themselves, the old rivalries emerge as political leaders seek to reassert control. At that point, an election becomes unavoidable, and the task becomes limiting the damage.

For Mr Dini to be considered to have succeeded in this latter challenge, two things are necessary. First, political leaders including Mr Berlusconi must summon the sense of responsibility to allow parliament to pass the proposed 1996 budget, which – though in many respects unsatisfactory – at least represents progress in bringing Italy's budget deficit and public debt under control.

Second – and probably more difficult – parliament must give legislative effect to the outgoing government's decree governing media coverage of the forthcoming election campaign. Without such a tightening of the rules, the partisanship of Mr Berlusconi's media empire will once again tilt the playing field, and further tarnish the political process.

Whether the poll will resolve anything is, as ever, unclear. But at least one can now imagine how Italy might get from here to there.

Gas pressure

The gas industry has finally noticed the elephant in its bedroom. Ms Clare Spottiswoode, the gas regulator, has rightly drawn attention to the losses British Gas is likely to face on long-term contracts to buy gas. However, there is a danger of overreacting at this stage. Ministers and the regulator should resist the temptation to help British Gas and its shareholders at customers' expense.

Under £40bn-worth of contracts negotiated years ago, British Gas must pay North Sea oil and gas producers about double the current spot price for gas. Competition in industrial supply means it cannot pass that deficit on to industrial customers. At present, it passes some on to domestic customers, but the arrival of competition in 1998 will make that tactic hazardous.

Many factors that will determine the eventual seriousness of the problem cannot yet be judged, such as the weather and the impact of competition. However, the regulator's comments are no doubt inspired by seeing British Gas lose share rapidly where it faces competition. According to some industry estimates, the eventual deficit may be £3bn.

British Gas argues that the government has changed the rules of the game since privatisation, in particular by bringing forward domestic competition by four years. It wants the government to stop competitors from relying on short-term gas prices for their supplies. It wants a government levy on gas from the older fields, worth £200m a year, to be lifted.

British Gas is right that the rules have changed. The rapid and radical introduction of competition is a necessary measure to compensate for the considerable flaws of the gas privatisation. It would have been much better had these problems been addressed beforehand.

However, British Gas bears some responsibility for the impending deficit. It sought out these contracts partly to deprive competitors of gas, and continued to sign such deals as new gas fields came on stream. Moreover, its stand overlooks the fact that it welcomed ministers' decision to accelerate domestic competition, albeit partly because the policy change was packaged together with a decision not to break up the company.

Alarms over a threat to British Gas's finances may be premature. There are steps the company may be able to take to reduce the deficit, notably through securing export deals. Until that position becomes clearer, ministers should not rush for measures which would ease British Gas's position at the expense of competitors, and hence customers.

For the regulator's part, her duty is not to ensure British Gas's overall viability, simply that of TransCo, the transmission subsidiary, whose operation is essential for the advent of competition. Concerns about the fortunes of the overall group should not distract her from that focus.

Auckland agenda

Commonwealth leaders meeting in Auckland next month need to clear their minds of cant. At the Harare summit in 1991 they solemnly reaffirmed the democratic values that are supposed to bind them. Four years later, this pledge has a hollow ring. Notwithstanding the useful work the Commonwealth has done in monitoring elections and strengthening fledgling democracies, it has fallen well short of the role it prescribed for itself as vigilant watchdog of democracy, press freedom, and human rights.

Largely in response to criticism of an indifferent and inconsistent record on human rights up to that point, the Harare communiqué pledged "full and continuing commitment to . . . the protection and promotion of the fundamental political values of the Commonwealth including democracy, the rule of law, just and honest government and human rights". As the Commonwealth Human Rights Initiative, an independent pressure group, said last week, many governments have failed to live up to this pledge.

In Kenya, for example, the Commonwealth has yet to speak out on abuses of the electoral system since President Daniel arap Moi won the country's first multiparty poll for nearly 25 years. And it has stayed silent on Uganda's new constitution, which extends a ban on political party activity.

Nothing demonstrates so well the cautious ambivalence with which the Commonwealth puts its principles into practice as the question of whether military or authoritarian regimes should be entitled to attend the Auckland summit. There has long been a debate between those who argue for suspension of countries that break the Commonwealth code, and those who maintain that it is better to expose them to peer pressure.

Such pressure has not so far been persuasive. Captain Valentine Strasser, the military dictator of Sierra Leone, will for instance be attending his second summit. Of particular concern is the presence of Nigeria's General Sani Abacha, ruler of a country that has been under military rule since 1983. Gen Abacha recently bowed to international criticism by commuting death sentences on alleged coup plotters. But Nigeria's respected former leader, General Olusegun Obasanjo, remains in jail on a 15 year sentence, and the return to civilian rule has been put off for another three years.

The issue is made more difficult by the informal nature of the Commonwealth, more a club than a structured organisation, with no established procedure for suspending or expelling members. But even a club should have rules. In Auckland, members who flout those rules should be put on notice that they face suspension unless they make clear progress towards restoring democracy. Otherwise the Harare declaration will carry little weight. And if the association loses credibility as a result, its leaders will have only themselves to blame.

Castro keeps reform on the leash

The Cuban economy needs radical treatment and fast growth if it is to recover lost ground, says Stephen Fidler

Outside the office of the president of the National Bank of Cuba is a mural of Ernesto "Che" Guevara. Guevara, the legendary comrade-in-arms of President Fidel Castro during the Cuban revolution, was president of the bank from November 1959 to February 1961.

The man who holds the position now, Mr Francisco Soberón, cuts a very different figure from the revolutionary hero. Polite and sober-suited, Mr Soberón is one of the central figures in a reform that will dismantle the bank that was once the heart muscle of the planned economy.

The bank has become an anachronism. The government is planning to split its commercial and central banking functions to allow for better management of monetary policy and to provide banking services for a proliferation of Cuban and foreign enterprises.

This is just one of a raft of changes taking place as Cuba comes to terms with the collapse of the Soviet Union, for three decades its main trading partner and aid supplier.

Cuba, handicapped by a 33-year-old US embargo and by its overdependence on sugar, has probably suffered more in the 1990s than any economy of the former Soviet bloc. Economic activity declined by up to a half from 1990 to 1994, bringing food rationing, long power cuts and near-collapse of the country's famed social services. Patients in hospitals, already short of disinfectant and drugs, now have to take in their own light bulbs.

Yet while economic reform is under way, communist Cuba has moved more slowly than any other country. Government officials say this is to avoid the sort of chaos that has beset the former Soviet Union. But it also reflects a strong worry that rapid economic reform would undermine the government's control over the country. "We have to go carefully," says Mr Soberón.

The most important reforms so far have followed street disturbances in July and September 1993 and in August last year. They include the decriminalisation of the holding of dollars and the legalisation of some types of self-employment and of certain private enterprise, such as restaurants. Huge state collective farms have been broken up into co-operatives and the go-ahead given for agricultural markets for farmers to sell produce at market prices.

They have been accompanied by macro-economic measures which have slashed a budget deficit that rose in 1993 to a third of gross domestic product. The government has also sought foreign investment to counteract acute foreign exchange shortages.

The changes have had some success. The government says the economy is turning around, and should grow by some 2 per cent this year. Diplomats and other observers agree that economic activity in city and countryside appears to have increased modestly since last year.

Yet growth will have to accelerate if Cuba is to recover ground lost over the past few years. A report prepared for a recent visit to Cuba of the InterAmerican Dialogue, a Washington-based group backing an easing of the US embargo, points out that, to recover its 1988 standard of living, "the Cuban economy will have to grow for eight years in a row at 7 per cent".

Economists believe growth has been slow because of the failure to pass reforms on a large enough scale. Reforms, say critics, have been ad hoc, half-hearted and lacking coherence. The private sector has been tolerated rather than encouraged and prospective foreign investors treated with caution, each proposal being examined case-by-case by the president himself.

Despite this, the reforms, together with unplanned economic developments, already imply changes of deep significance.

First, a split has emerged between the dollar economy and the traditional state economy. The purchasing power of the dollar so outweighs that of the unconvertible Cuban peso that Cubans scramble for dollars.

This explains the band of hustlers, prostitutes and criminals that now live on the fringes of the tourism industry, and why few Cubans want to work in traditional industries.

Access to hard currency has increased, to the extent that the government says 44 per cent of Cubans now have access to dollars. The new farmers' markets, which operate in pesos, together with fiscal measures, have restored some value to the Cuban peso. It is now about 25 to the dollar compared with between 120 and 150 a year ago.

Yet the government will have to go much further before it can establish a convertible peso at a socially acceptable exchange rate: at the present rate, the best-paid state bureaucrats earn just $20 a month.

This implies cutting government spending further. On efficiency grounds, there is plenty of room for this: the bureaucracy is overblown and inefficient, the state security apparatus formidable and hundreds of thousands of workers are being paid while their enterprises cannot produce for lack of inputs. However, it threatens a big rise in unemployment, against which employment by foreign investors – officially 60,000 – looks like a drop in a bucket.

Another development is the dissolution of central control over the economy. Not only have collective farms been converted into more than 3,000 co-operatives but hundreds of quasi-autonomous state enterprises, along with foreign companies, are now operating. Self-employment and an important black economy mean many people now make their living independent of the government.

Linked with this is the growing economic importance of the military. Many of the enterprises that have been established are run by the armed forces, which operate companies in areas as diverse as tourism, dollar shops, manufacturing industry and proposed free-trade zones.

The creation of increasingly independent economic agents threatens to dilute the formal power structure based on the one-party state that centres on 69-year-old President Castro.

This is widely believed to be why Mr Castro is reluctant to reform, and why he has had to be cajoled into reform by among others, his brother Raúl, the head of the armed forces and formerly one of the regime's staunchest communists.

The president says he favours the model of economic reform combined with strong political control provided by China and Vietnam. "The incredible disasters that have occurred in the countries of the former Soviet Union, in spite of their enormous resources of energy, raw materials and external finance, contrasted with the impressive successes of China and Vietnam, indicate what we can and cannot do if we want to save the revolution and socialism," he said in July.

Yet Cuba's economic reforms so far fall short of those introduced in either country. Mr Carlos Quijano, a Cuban-born consultant to the World Bank, points out that it is the differences between the Cuban and Vietnamese reforms that are striking, not their similarities.

Since 1986, he says, the Vietnamese government has enshrined private property rights in the constitution, encouraged the private sector and investment by non-resident Vietnamese, largely freed labour markets and prices, adopted a general rather than case-by-case approach to foreign investment, unified the exchange rate and allowed it to be set by the market, and removed quantitative restrictions on trade.

None of these shifts has yet taken place in Cuba, although a cautious law on private property is expected soon and non-resident Cubans have just been invited to invest, although most cannot because of the US embargo.

After a recent visit to Cuba, Mr Oscar Arias, the former Costa Rican president, declared: "There is no will to change." His declaration angered the government, but the view reflects Mr Castro's firm intention to stay in charge.

Yet while Mr Castro can hinder the transition to the market economy, he will be unable to stop it. The more obstacles he puts in the way, the slower the recovery and the greater the despair of Cuba's already dissatisfied population.

Crédit Lyonnais' successful advertising campaign is beginning to pay off, says Andrew Jack

Bank on a glossy image

Last autumn may not have seemed a good time for Crédit Lyonnais, the banking group owned by the French state, to launch a bold and aggressive advertising campaign, but one year later it seems that the gamble may be beginning to pay off.

It looked as though things had reached their lowest point in September 1994. Losses for the previous year at FFr6.9bn ($1.4bn) were among the highest in French corporate history; a financial rescue package worth FFr40bn had been put in place; the former chairman had been ignominiously ousted by the government; and a parliamentary inquiry had severely criticised management.

"Everyone was talking about Crédit Lyonnais," says Mr Nicolas Chaine, the bank's communications director. "We had no time to talk about the future. We were just looking at our feet. It was communication by reaction. We responded to questions, and what came out was incomprehensible – so much so that we were afraid of rejection by our clients and our staff. We had to take back the initiative."

In fact, things would get worse. The bank ran into a bitter battle with the French government over the size of the losses that it would be allowed to report for the first half of last year, and it was forced to delay publication of its results.

But by the time it unveiled new losses of FFr4.5bn a week later, Mr Chaine had begun to exert his new ideas. Over five successive days, he ran five different page-long adverts in all of France's 66 regional newspapers and most of its national ones at a cost of FFr15m.

"Nothing is more difficult than communicating during a crisis," says Mr Benoît Devarrieux, then with the advertising agency BBDO and now head of his own company, who developed the campaign.

His solution was to send out a message of transparency and humility, communicated through humour. "It is the best way to dedramatise a crisis," he says.

The first advert was entitled "Here are the bad results that everyone was waiting for," followed by a detailed page of text explaining the heavy losses without any waffle. Another challenged readers "To change bank, it's now or never", illustrated by a range of cartoons critical of the bank's past that had been published in the press.

The final advert said "Instead of speaking about Crédit Lyonnais between yourselves, come and talk to us about it", heralding an unprecedented event: an "open door" day during which all branches stayed open till 9pm and invited in customers to pose questions.

The campaign also coined a new slogan. Until three years ago, Crédit Lyonnais was still using a phrase that would come back repeatedly to haunt it as evidence mounted of its willingness to make poor quality loans. "The power to say yes." It was symbolic of the traditional arrogance of banks' advertising campaigns, says Mr Chaine.

In its place, Crédit Lyonnais opted for *"Votre banque vous doit des comptes"*, a word-play meaning both "your bank should be accountable to you" and "your bank is indebted to you" – a reference to the support that French taxpayers would be required to provide through the state-backed rescue plan agreed earlier this year.

Mr Devarrieux says an important element in the success of the campaign was the boldness of Mr Jean Peyrelevade, Crédit Lyonnais' chairman, who took sole responsibility for approving the adverts and raised few objections.

Even so, things continued to get worse for the bank. Its losses continued to mount, reaching FFr12bn for 1994; it needed a second rescue package involving underwriting FFr135bn of its assets; and Mr Bernard Tapie, the businessman who owed the bank some FFr1.2bn, even tried to sue it over the cartoons reproduced in its advert which he claimed were defamatory.

Most significant, Crédit Lyonnais became an intensely political issue in the run-up to the French presidential elections in April and May.

But the bank pursued its new communications strategy, buying television slots this spring for an adverts string at a cost of FFr20m.

The aim was to shift attention to products and services that Crédit Lyonnais had on offer. "Banks were not considering customers as adults," says Mr Chaine. "We tried to address their preoccupations."

The bank's slogan is prominent, and humour remains a central theme. And earlier this month, it won a prestigious French award for fund management and wasted little time in exploiting the positive news.

"This is the last illusion to the past," says Mr Chaine. The humour and the slogan will remain, but he says that from now on the bank's approach to communications will be to focus on products and services that emerge from an internal debate on future strategy currently under discussion – and to make promises that can be kept.

Meanwhile, the bank's image seems to have been recovering. The number of clients opening new accounts fell sharply to 4,000 a week over the past few months. It has now risen again to about 10,000.

OBSERVER

Alfonse's poker face

■ Washington has a lot on its mind at present - budget votes, Yeltsin's health, Powell's candidacy. However, the question of the hour yesterday was whether Alfonse D'Amato, once known as senator pothole, was any good at poker.

Just one day after threatening to summon Hillary Clinton to testify in front of his Whitewater committee, the senator from New York found himself under investigation. A New York Times exposé delved into the regular Thursday night card sessions in his offices in which the other players were mostly big time lobbyists for the financial services industry, over which he has had jurisdiction since his election in 1980 as first a member and now chairman of the banking committee.

The preferred game was the Alfonse Cross (based on the placement of face-down cards, and nothing else, your honour).

The point on which the participants could not agree was whether the senator was a big winner.

One lobbyist said he was "a terrible player" and little money changed hands but others said he was not bad and that pots sometimes ran into the hundreds of dollars. None admitted to being subsidised by their own firms for any losses that they might have incurred.

Still, gambling winnings are theoretically taxable. Senators also must disclose any outside income or gifts worth over $200 a year. It sounds as if D'Amato might need a lawyer. Of course, there's a very good one over in the White House and she is a little under-employed at present.

Chemistry lesson

■ It has not been a good week for Germany's Chancellor Helmut Kohl. First he has been accused of behaving like an "offended liver sausage" for snubbing the UN's 50th birthday party in New York, and now he has committed another *faux pas*.

When he was asked how he got on with his French counterpart after a working dinner in Bonn this week, the chancellor quickly decided there was no German word – nay, no European expression – which could suitably describe the good vibes between himself and President Chirac. Instead he had to resort to an American turn of phrase.

"The chemistry is right," he beamed. Jacques was not amused.

Famous Belgians

■ An interesting test case of the otherwise impeccable federalist credentials of the European People's Party (EPP) arises in the run up to the party congress in Madrid next month.

The Flemish Christian People's Party – one of whose more prominent members is EPP president Wilfried Martens – has managed to insert the following sneaky little amendment into the EPP's draft position paper for the 1996 Intergovernmental Conference.

"It is necessary to elaborate a procedure for the voluntary departure of member states which, however, also renders possible suspensions and even exclusion from the EU."

Right on. So will the notion make it to – or through – the Madrid meeting?

Devil of a job

■ The presence of the local bishop added to the air of confessional at yesterday's Olivetti shareholder meeting at the computer group's headquarters in Ivrea, north of Turin.

The Bishop of Ivrea, Monsignor Luigi Bettazzi, spoke as the delegate of an Olivetti shareholder, to warn chairman Carlo De Benedetti that his plans for job cuts risked breaking the historic bonds between company, workers and local community.

De Benedetti, however, had his mind on higher things: how to persuade shareholders to cough up L2,257bn to fund the revival and relaunch of the company.

His address to shareholders followed a formula familiar to any self-respecting bishop: a sermon (about the structure of the group) and a plea for forgiveness (of management sins relating to not restoring the personal computer business to profitability and underestimating the cost of restructuring the group), promptly followed by the emergence of the collection dish.

Other shareholders were more concerned about whether De Benedetti had sold his soul to Mediobanca, the secretive Milan merchant bank which is organising the rights issue. "I can't sell them anything," admitted De Benedetti ruefully.

Wheely binned

■ A recent meeting between a delegation of US machine tool manufacturers and a group of provincial Chinese state companies on setting up manufacturing operations in China had dragged on for two days. Everyone was tired. "Yep" said the leader of the US delegation, "it's a great idea, but can we put wheels on it?"

This caused a minor explosion from the contents of the translator's booth which had been under the impression that the day's discussions were over. Eventually, the Chinese delegation's ear phones crackled back to life. "I don't know why but now the American wants to discuss the automotive industry..."

The Financial Times

50 years ago

US offers loan at 2 per cent
Washington. The British Cabinet decision on the latest American offer of a loan is expected to be in the hands of the negotiators within the next twelve hours. It is learned authoritatively that the offer is for a loan of $4,000 millions (£1,000 millions) at the rate of 2 per cent interest, payable over 50 years. British negotiators frankly declare that these terms are quite unacceptable. The terms, revived by the American negotiators under the influence of what they believe to be the highly conservative temper of Congress on this subject, would inevitably tend to repeat the mistakes committed in working out the settlement of the first world war debts.

Malayan mining re-equipment
The Secretary for the Colonies, Mr George Hall, stated in the House of Commons that the Malayan Chamber of Mines had asked for financial assistance to enable the companies to repair and replace the equipment which was destroyed or damaged as a result of military operations in Malaya. This request was at present under consideration.

FINANCIAL TIMES
Friday October 27 1995

Italian PM vows to resign by end of year ■ Lira recovers after week of losses

Dini survives no-confidence vote

By Robert Graham in Rome

Mr Lamberto Dini, the Italian prime minister, narrowly avoided defeat yesterday in a no-confidence motion by pledging to resign by the end of the year.

By laying out a clear timetable for the remainder of his term in office, Mr Dini, who said he would leave when the 1996 budget was approved, won the support of the 24 deputies of Reconstructed Communism, formed from the old Italian Communist party.

The motion, moved in the chamber of deputies by the rightwing alliance headed by Mr Silvio Berlusconi, the former prime minister, was defeated by 315 votes to 291, with the communists abstaining.

The lira immediately recovered some of the ground lost since the political crisis erupted last week with the removal of Mr Filippo Mancuso, the justice minister. The lira was being traded at L1,138 against the D-Mark compared with L1,170 earlier in the week.

The sacking of Mr Mancuso, following a no-confidence vote in the senate on Thursday, led Mr Berlusconi to attempt to bring down the government. The former prime minister, who faces a trial in January on charges of corruption, vigorously defended Mr Mancuso's controversial inspections of Italy's leading anti-corruption magistrates.

Yesterday, Mr Gianfranco Fini, leader of the rightwing National Alliance and Mr Berlusconi's chief ally, warned that the government's victory would be pyrrhic. He said the government could no longer pretend to be neutral and technocratic, as it was clearly kept alive by a centre-left majority.

The Berlusconi camp last night warned that Mr Dini would face a tough task pushing the 1996 budget through parliament. The budget, which seeks to reduce the deficit from 7.4 per cent of gross domestic product to 5.9 per cent, already has over 1,200 amendments tabled. Mr Fausto Bertinotti, the Reconstructed Communism leader, also said yesterday he would oppose the budget.

Mr Dini said his limited mandate assumed in January would be completed once the budget was approved. By law, a budget must be passed by December 31.

He is also committed to seeing a decree governing the role of the media during elections put on the statute book. The decree was aimed at imposing stricter curbs on Mr Berlusconi's use of his media empire to further his own political ends. But little progress on its conversion to law has been made for almost six months.

Much of Mr Dini's closing speech yesterday was taken up with a defence of the removal of Mr Mancuso.

He accused the minister of breaking with cabinet collegiality and of embarking on a provocative series of inspections of Italy's anti-corruption magistrates. Mr Mancuso's dismissal of this attack last night indicated the matter is far from concluded.

See Lex
Berlusconi robbed, Page 3
Editorial Comment, Page 19

Tokyo office sale heartens market

By William Dawkins in Tokyo

Mitsubishi Estate, Japan's leading property company, is to sell an office block in central Tokyo for Y75.6bn ($746m) in the city's first significant open market property sale in more than a decade.

Property analysts welcomed the deal as helping to put a stable, market-related floor under Tokyo property prices, which have fallen 60 per cent since their early 1990 peak. This could reinforce the shaky value of Japanese banks' and industrial companies' commercial property portfolios.

Mr Bernard Siman, senior analyst at UBS Securities, said this "seems to indicate ... that the bottom has been reached. This realisation is important for confidence in the asset prices of the major companies that own prime property."

The buyer is Marubeni Corporation, one of Japan's top five trading companies. Most of the few buyers of large Tokyo commercial properties in recent years have been subsidiaries or close associates of the seller, acting under orders not to push prices down too fast. Far from being connected, Marubeni and Mitsubishi belong to fiercely competing *keiretsu* – corporate families.

The property, a 16-storey block in the Otemachi business district, built 23 years ago, is Marubeni's headquarters. Marubeni calculated it would be more economical to own the building than continue paying Y5.6bn rent a year. Mitsubishi will use its estimated Y60bn profit from the sale to offset some of the more than $2bn loss from its decision last month to give up ownership of the New York Rockefeller Center.

The price values the land at Y10.56m a square metre, down 67 per cent from an official local authority valuation of Y32m at the peak of the boom in property prices five years ago, according to Mr Mark Brown, senior analyst at Barclays de Zoete Wedd in Tokyo. "The Mitsubishi sale gives us a limited benchmark for property prices, of between 50 per cent and 70 per cent of their peak. It does suggest that a deal can be done at this level."

The most recent property transaction of any size, in June, showed an even steeper price drop, although it was a special case. That was when Chiyoda Mutual Life Insurance sold a burnt-out hotel on a site near the parliament building to one of its affiliates, for Y59.76bn, one-fifth the Y300bn at which the land was valued in 1989. The Hotel New Japan was gutted by fire 13 years ago, with the loss of 33 lives, and the shell has stood empty since. Chiyoda, the main creditor of the bankrupt hotel company, tried to auction the building twice, but no bidders emerged.

Before that, the biggest arms-length property sale in Tokyo is believed to date back to 1983 when the Japan Light Metal Association bought a Ginza office block for Y25bn.

London business property survey, Pages 13-15

Investors criticise Thai plan to alter foreign share rules

By Ted Bardacke in Bangkok

The prices of foreign-registered shares on Thailand's stock exchange fell sharply yesterday after the country's Securities and Exchange Commission approved draft regulations to allow easier foreign ownership of Thai stocks.

Some institutional investors whose holdings fell in value as a result criticised the plan, saying it rewarded potential investors at the expense of those already in the market.

The new regulations will allow the creation of trust funds through which foreign investors can buy ordinary Thai shares rather than foreign-registered shares which carry a premium. Before yesterday's price falls, this premium was often 30 per cent or higher in the case of some widely held equities.

The Thai SEC announcement, after remarks by Mr Surakiart Sathirathai, finance minister, on Monday promising swift implementation of the new trust funds, triggered a fall in the price of some blue-chip stocks which carry a high foreign premium.

Foreign-registered shares of Bangkok Bank, Thai Farmers Bank and Siam Commercial Bank, ranking first, second and fourth in size among the country's banks, fell 5 per cent, 5.7 per cent and 6 per cent respectively.

The Thai SEC said the short-term losses created by the decline in the foreign premium would be offset by the long-term gains of increased foreign investment.

Implementation of the new trust funds is still months away as the regulations must be forwarded by the finance ministry for cabinet approval. If passed by the cabinet, legal technicalities will be reviewed by the country's Judicial Council to see if the regulations break any existing laws.

The stock exchange of Thailand must also set up trust fund management companies to hold the shares. Individual companies will have to apply for participation, since joining the scheme will be voluntary. The number of locally registered shares eligible for the scheme will also be up to the companies themselves.

Buyers of Thai shares via the scheme will not have voting rights except in limited circumstances, such as the delisting of a company from the stock exchange. This will in effect stop many investment funds, especially those based in the US, from participating in the programme because of domestic regulations. Therefore it is likely some foreign premium would remain on Thai shares, analysts said.

There will be one trust fund for each company participating in the scheme and it will automatically be listed on the stock exchange. The purchase and redemption price of each unit of the fund should be equal to the prices of the locally registered shares being bought and sold, the Thai SEC said.

See world stocks

Philips shares hit by slump in electronics

Continued from Page 1

excuse, but it gives an indication of the mountain which a company like Philips, operating in a hard currency like the guilder, has to climb."

He was disappointed with a rise in inventories, caused partly by low European demand for consumer electronics. This helped push up working capital by more than Fl 4bn in the period.

Mr Eustace said the "long, hot summer" in Europe may have been a factor keeping people out of shops selling consumer electronic gadgetry. Price discounting in Europe also hurt Philips. The current fourth quarter is expected to be crucial for the consumer electronics business, which depends heavily on Christmas-related sales.

Mr Steven Vrolijk, analyst at ING Bank, said Grundig had not only faced an 11 per cent contraction of the German market but was also confronted by a 6 per cent erosion in selling prices.

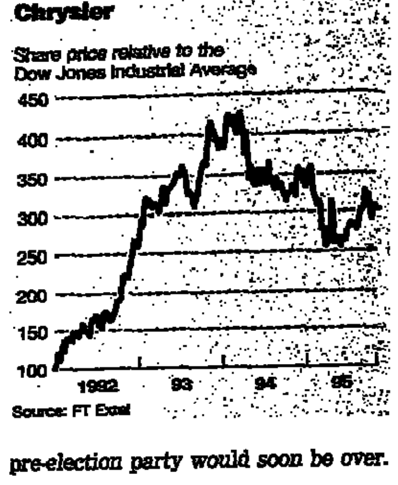
THE LEX COLUMN

Gearing up for a fight

Mr Kirk Kerkorian may have failed to take over Chrysler in April. But the billionaire investor has bounced back with a fresh set of demands, including three board seats and another look at whether the US carmaker really needs all its $6.4bn cash reserve. These proposals pose a dilemma not only for Chrysler's management but also for other shareholders. They want more of the fruits of Mr Kerkorian's pressure. But if his allies get on the board, they may sneak control without having to pay a premium. If Mr Kerkorian is defeated, the existing board may feel let off the hook.

That would be a pity. Although Mr Kerkorian has already won dividend increases and a share buy-back programme from the company, there is scope for more. Mr Robert Eaton, Chrysler's chairman, argues that the group needs $7.5bn in cash to weather the next recession, while Mr Kerkorian's camp puts the figure at $4.5bn. Embarrassingly for Mr Eaton, a set of leaked Chrysler documents forecasts a mild downturn, with the cash pile growing to $11bn by 1999. The trick will be to achieve a compromise under which shareholders are handed back more cash without handing Mr Kerkorian control on the cheap.

FT-SE Eurotrack 200: 1499.3 (-0.3)



Source: FT Extel

Italy

Italian equities reacted yesterday with customary brio to the scent of impending elections. The stock market has an almost perfect record of strong rises in the lead up to elections. And while Mr Lamberto Dini, the prime minister, has escaped immediate dismissal, he is committed to standing down by the end of the year.

With currency, bond and equity markets all taking a pasting in the last month, there is clearly room for a rally. Yet investors should not rely on the traditional bonanza. Mr Dini has yet to push through his budget. With the whole-hearted opposition of Mr Silvio Berlusconi, the former prime minister, and the Reconstructed Communist party's aversion to spending cuts, the already watered-down budget proposals could face further dilution.

Though elections should provide some sense of political direction for Italy, neither the left nor the right has compelling anti-inflationary credentials. This is a serious concern, given the size of Italy's debt mountain. Inflation is already running at 5.8 per cent, despite depressed consumer spending. If fiscal laxity forces another interest rate rise, the pre-election party would soon be over.

European equities

NatWest Securities has finally revealed publicly what other brokers have been saying privately for years: Seaq International's European service is in terminal decline. The London Stock Exchange's international trading system grabbed a large share of the market for cross-border investment in the late 1980s when local bourses suffered from old-fashioned practices and little liquidity. But the advent of electronic trading systems and a greater willingness to take risks has undercut Seaq International. As equity trades have drifted back to the Continent, liquidity has drained away, making its prices uncompetitive. The final blow is a European Union directive that will next year allow brokers to trade on Continental bourses without a local presence. With electronic connection direct to local markets, there will be even less point in using Seaq International.

Does this undermine London as a financial centre? Probably not. Pan-European functions are still being sucked to London – witness the recent spate of UK merchant banking takeovers. The increasing integration of Europe's financial markets makes cross-border risk management, sectoral research and international equity syndication all the more important. In these areas, London has the edge.

Postbank

The German government appears to be struggling to keep its state-owned industries in order. Less than two years after Deutsche Post and Postbank were separated, the larger twin is demanding that they are reattached. And the government appears willing to foot the bill. Its reaction is strange. Postbank's defence tactic of putting together a consortium of small, undistinguished shareholders does not strengthen the case for its independence. But, at least, the consortium members are offering a significantly higher price for a stake than that offered by Deutsche Post.

There should be a better solution. Deutsche Post's bid followed its inability to strike a deal over the amount Postbank should pay for housing its branches in post offices. If the government were to have a chat with the supervisory boards of the two companies, rather than letting them slug it out, a mutually profitable solution should be achievable. It could then engineer a rational sell-off. The separation of giro banks has proved highly successful in the UK, the Netherlands, and Denmark. There is no reason why the same should not be true in Germany.

Chemicals

Has the chemicals cycle peaked? The recent sharp fall in petrochemical prices – combined with cautious noises from the likes of Rhône-Poulenc and Du Pont – has certainly given investors the shivers. But profits are still in general growing strongly, as Imperial Chemical Industries and Dow Chemical showed yesterday. The evidence so far suggests a pause in the upswing, caused by unwinding excess stocks, rather than the start of a full-blown downswing.

The destocking is shown vividly in ICI's results. While volumes grew 10 per cent in the first quarter, they fell 4 per cent in the third quarter. But from next year, supply and demand should be back in balance. Thereafter, world chemical volumes are forecast to grow at roughly 2 per cent – which should be enough to prevent a price implosion given that the industry is being cautious about adding new capacity. Chastened by the last recession, most US majors have been using surplus capital to repurchase their shares. That should help produce a longer, if flatter cycle. ICI too looks well placed. With an almost debt-free balance sheet and more cost savings to come, accelerated dividend growth or a share buy-back of its own no longer look far-fetched.

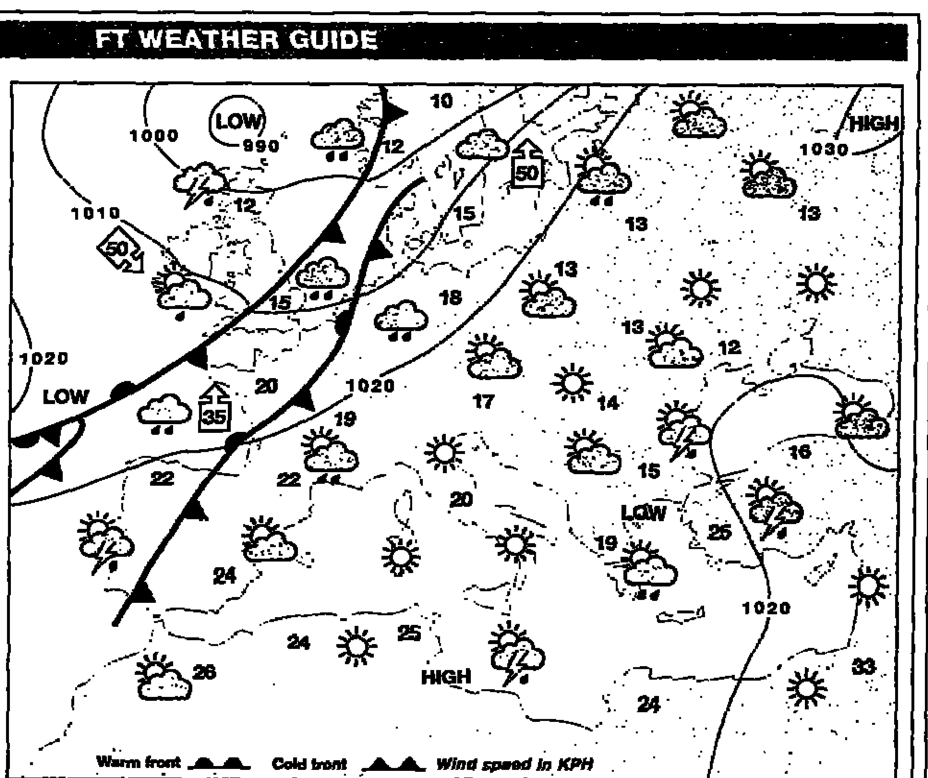
FT WEATHER GUIDE

Europe today

Norway, and later Sweden and Finland, will have cloud and rain as a frontal zone lingers over Scandinavia. The same front will cause rain in the Benelux and western parts of France and Spain. However, mild air will be transported from the south and afternoon temperatures will be above seasonal levels. In the wake of the front, England and Scotland will have showers, and Ireland will be dry with sunny periods. Ahead of the front, eastern France, Spain Germany and Alpine countries will have sunny periods. Hungary, Italy and the former Yugoslavia will be sunny. Low pressure will give cloud and showers in Greece and western Turkey.

Five-day forecast

Low pressure in the extreme south-east of Europe will slowly move west, so that Greece and Turkey will turn dry and rather sunny at the start of next week. A new depression with cloud and rain will move over central Europe and Italy during the weekend and will then head for Greece. Western Europe and the UK will have cloud and occasional rain.

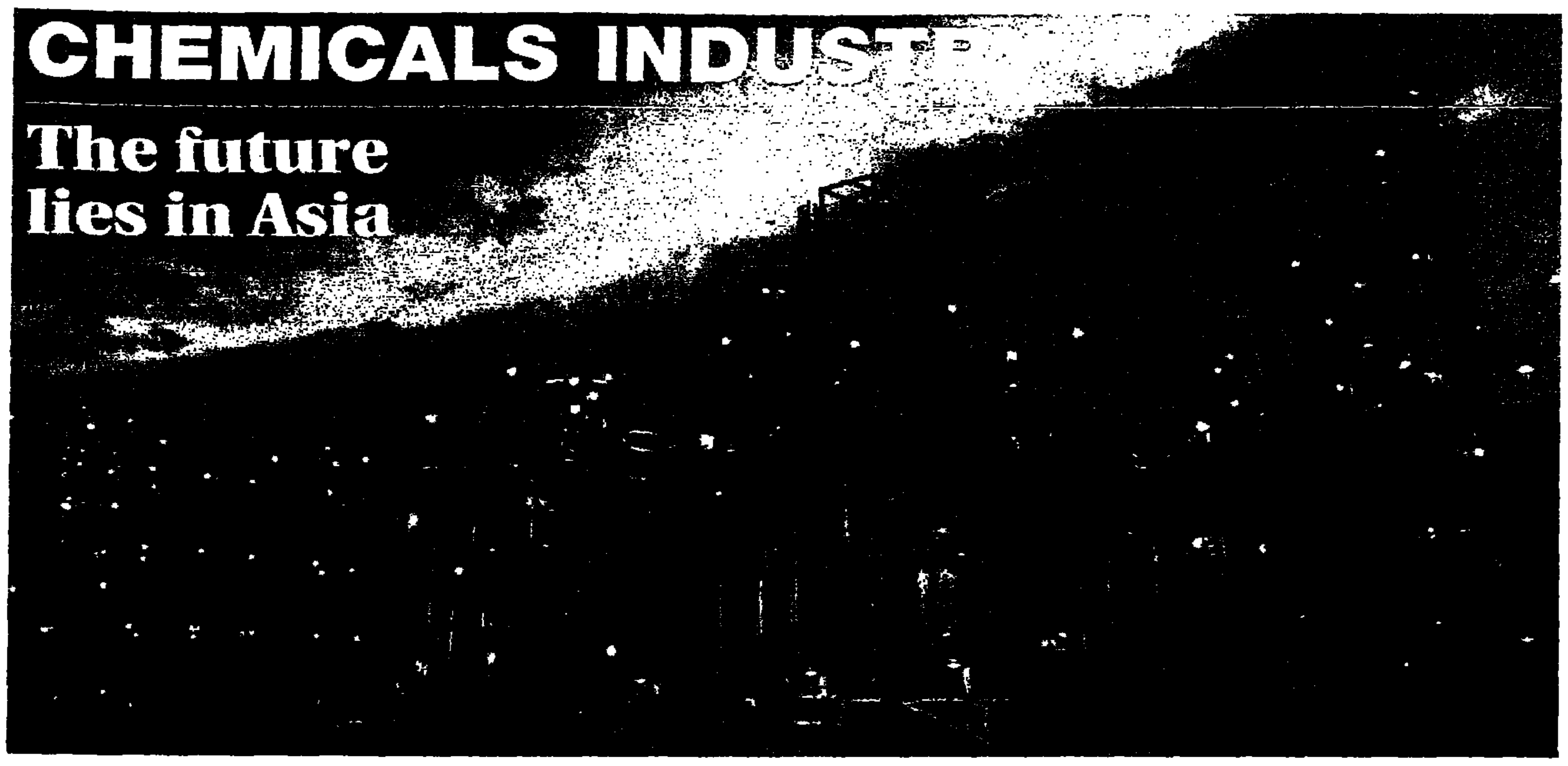


Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	sun	22	Caracas	fair	30	Faro	fair	23	Madrid	fair	21	Rangoon	fair	32
	Celsius		Belfast	shower	11	Cardiff	rain	15	Frankfurt	rain	18	Majorca	sun	24	Reykjavik	cloudy	4
Abu Dhabi	sun	32	Belgrade	sun	15	Casablanca	fair	25	Geneva	fair	18	Malta	fair	23	Rio	fair	29
Accra	thund	30	Berlin	fair	19	Chicago	shower	17	Gibraltar	fair	22	Manchester	shower	14	Rome	sun	30
Algiers	fair	26	Bermuda	fair	27	Cologne	rain	20	Glasgow	shower	12	Manila	cloudy	28	S. Frsco	sun	21
Amsterdam	rain	17	Bogota	cloudy	18	Dakar	sun	32	Hamburg	rain	19	Melbourne	shower	16	Seoul	fair	19
Athens	fair	19	Bombay	fair	35	Dallas	fair	28	Helsinki	rain	10	Mexico City	fair	24	Singapore	shower	32
Atlanta	fair	20	Brussels	rain	18	Delhi	fair	29	Hong Kong	fair	28	Miami	fair	29	Stockholm	rain	13
B. Aires	fair	24	Budapest	sun	13	Dubai	sun	33	Honolulu	fair	30	Milan	fair	16	Strasbourg	cloudy	19
B.ham	shower	15	C.hagen	rain	15	Dublin	fair	11	Istanbul	thund	16	Montreal	fair	9	Sydney	fair	22
Bangkok	shower	32	Cairo	sun	34	Dubrovnik	shower	18	Jakarta	shower	32	Moscow	sun	13	Tangier	fair	24
Barcelona	fair	23	Cape Town	rain	19	Edinburgh	shower	12	Jersey	rain	18	Munich	fair	18	Tel Aviv	sun	34
									Karachi	fair	35	Nairobi	thund	25	Tokyo	fair	19
									Kuwait	sun	32	Naples	sun	21	Toronto	shower	12
									L. Angeles	sun	24	Nassau	fair	31	Vancouver	fair	10
									Las Palmas	sun	27	New York	fair	18	Venice	fair	17
									Lima	cloudy	21	Nice	shower	21	Vienna	fair	14
									Lisbon	rain	22	Nicosia	fair	28	Warsaw	fair	13
									London	shower	18	Oslo	rain	13	Washington	fair	17
									Lux.bourg	rain	17	Paris	cloudy	20	Wellington	shower	16
									Lyon	fair	21	Perth	fair	27	Winnipeg	fair	8
									Madeira	fair	24	Prague	fair	14	Zurich	fair	17

CHEMICALS INDUST[...]



The future lies in Asia

Asia has long been an outlet for the West. But local rivals and the role of China are reshaping the industry, says Jenny Luesby

For chemical producers everywhere a difficult decade is beginning in which the promise of booming markets in Asia's expanding economies is threatened by the twin forces of new competition and overcapacity.

Since the building frenzy of the late 1980s, which sent the global industry into one of its deepest recessions, western producers have shown restraint – dropping plans to add to existing plant as well as making brutal cuts to existing ones.

Their reward, as demand has improved, has been higher prices and soaring profits. The problem for European, American and Japanese producers, however, is that while they have been shedding a quarter of their workforce and trimming capacity, their new rivals in Asia have been racing to put up new plants. The prospect, therefore, is of another period of selling low technology products into crowded markets.

In bulk chemicals, which are the raw materials for thousands of ingredients used in paints, plastics, adhesives, cleaning products, drugs and food, companies need to run plants at close to 95 per cent of production capacity to be sure of profits.

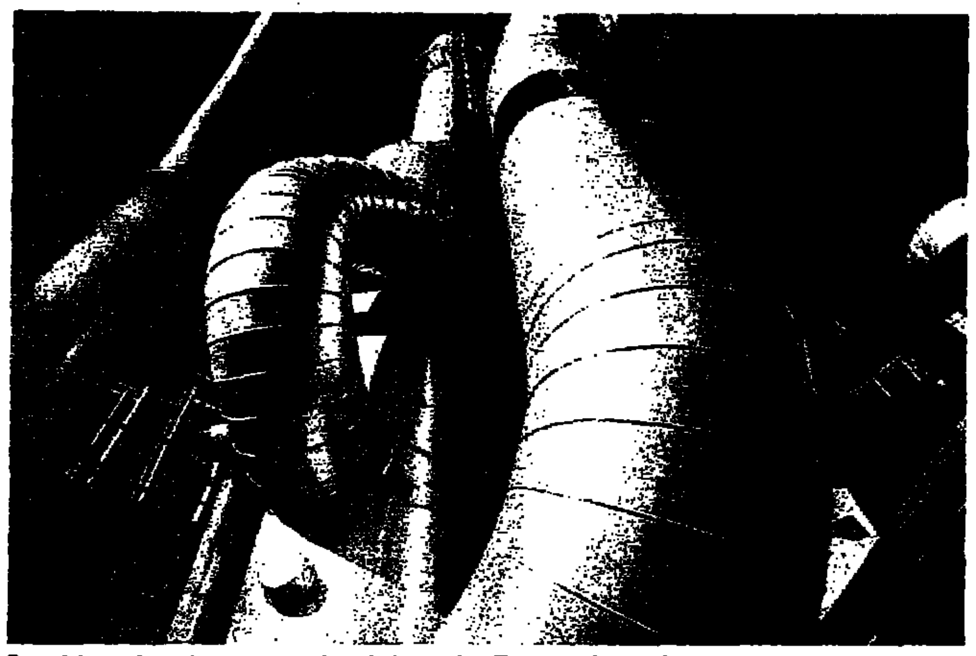
From 1990 until last year, they were running nearer to 80 per cent, leading to rock-bottom prices as producers fought for market share.

BASF, which is heavily concentrated at the bulk end of the industry, saw pre-tax profits slump from DM4.4bn in 1989 to DM1.1bn by 1993, while DuPont's pre-tax profit fell from $4.3bn to $1.0bn.

Simultaneously, minor domestic suppliers in Asia were transforming themselves into world leaders.

In Taiwan, Formosa Plastics is now the largest PVC producer in the world. In South Korea, the production capacities of Lucky, Samsung and Daelim equal any of the largest western petrochemical companies. Meanwhile, local Asian producers continue to build new plants.

For a while many in the industry were tempted to believe this did not matter: a slight upturn in western demand appeared to have delivered a sufficient market for everyone.



Part of the equipment to remove toxic emissions at BASF's nitric acid plant in Antwerp

Dow Chemical and BASF reported a tripling in pre-tax profits in the first half of this year, as did other smaller bulk chemical companies, such as DSM of the Netherlands.

But the take-off was a false dawn. It was helped by trends that will last for some time, such as a rise in demand for synthetic fibres in response to the cotton and wool shortages caused by disease in Asia and drought in Australia. But most of the recovery was due to less enduring factors, such as floods, droughts, fires and explosions.

As the surviving producers began to hit full capacity in their efforts to meet this shortfall, prices started to rise, encouraging the chemical industry's customers to buy more raw materials as a hedge against further price rises, thereby boosting demand even more.

In sum, says Mr Fred Peterson of chemical industry analysts Probe Economics, the rising prices were "an aberration". By March, the shortages had ended, and the industry's customers began to reduce stocks.

The last blow to this false recovery came from China, which is the world's largest export market for plastics and an important buyer of most chemicals. Having loosened import procedures last year to help vital raw materials into the country, Chinese authorities were irked by the rise in tax avoidance and speculative buying by importers, and in May they announced a clamp-down that reduced chemical imports to a trickle. The sudden drop in sales sent prices spiralling.

The industry, which now faces prices and demand at similar levels to early 1993, is still arguing over whether there is overcapacity.

Mr Simon de Bree, the president of the European Chemical Council and chairman of DSM, dismisses the need for any new ethylene plants in Europe before the year 2000.

Mr John Yimoynes, vice president of Union Carbide, predicts that, once the growth in Asian demand is taken into account, the world will need at least 20 new ethylene plants in the next 10 years. However, five new plants have already been unveiled in the US and more than 40 in Asia. The new Asian plants may not all be built. But contractors have been commissioned for 17 of them, and many more have been officially approved. If they all went ahead, Asia would be awash with ethylene.

Asia would then cease to be an overspill market, capable of mopping up at least some of the excess production from the rest of the world; and it could pose a serious threat to European and American producers, as their home markets became the target of Asian exporters.

Asia has already changed from net importer to net exporter of raw materials used to make polyester and fertilisers, and the region claims dominance in an increasing range of plastics, fibres and speciality chemicals.

There is no doubt, says Mr Manfred Schneider, chairman of Bayer, that Asia's emergence as a net exporter "will rapidly gain momentum, particularly in the commodities business, bringing a fundamental change in the global structure of the chemical industry".

Until now, Europe has held its pole position in the global industry, despite greater levels of efficiency in the US. It accounted for one-third of world output as recently as 1990, and while that is now down to a quarter, 18 of the world's top 30 chemical companies are still based in Europe.

But Asian producers are becoming a serious competitive threat, says Mr John Cox, president of the UK's Chemical Industries Association.

The problem is not just that they are taking up the slack in Asia, and beginning to encroach on established markets, but that the region is the only area of significant growth in chemicals consumption.

This year showed the importance of China to the petrochemicals and plastic markets, which account for 31 per cent of the global industry. ICI estimates that the total Asia Pacific market, which stood at $280bn in 1990, will have expanded to $460m by 2000.

Most of the industry's products are rooted in technology discovered in the 1950s and 1960s and therefore out of patent. Producers must therefore rely heavily on volume growth to raise their turnover. Yet they are beginning to be get boxed into the static markets of mature consumer economies. But western producers cannot be insulated from the effect on prices of Asian chemicals surpluses. The world's spot markets are already close to homogeneity as seen on Friday, June 2, when PVC prices simultaneously peaked on the spot markets of Hong Kong, south-east Asia and Europe.

With no net gain in profitability by the prevention of oversupply, western producers' restraint in building new plants is almost tantamount to conceding market share. As a result, some are contemplating new plants even where they know the market is oversupplied.

The alternative is a switch to speciality chemicals, the prices of which have traditionally been less susceptible to overcapacity.

In the last year, speciality manufacturers have been hit by the rise in raw material prices, but their profit margins are generally better than in bulk chemicals, and demand is still rising in the west.

Continued on next page

IN THIS SURVEY

■ **NEW ASIAN ALLIANCES: by William Dawkins**

The Japanese turn outwards

Why Japanese and other Asian producers are forging strategic partnerships

As recession, the strong yen and falling prices bring to an end years of growth in a cosy domestic market, Japan's petro-chemical manufacturers are belatedly turning their attention overseas, particularly to Asia.

Analysts say the top Japanese chemical companies seem to have reached a consensus that new investment should be concentrated in Asia. They spent $929m on Asian plants in FY 1994, a figure fast approaching the $1,339m spent in North America and almost three times the amount spent in Europe. Many new plants are joint ventures, either with other Japanese companies or local partners.

Sumitomo Chemical Corp is ahead of the pack with its Singapore ethylene production joint venture, Petrochemical Corp of Singapore. The first of its kind in Asia and the biggest Japanese offshore chemical operation, the plant produces 440,000 tonnes of ethylene a year.

Sumitomo is planning to add a new facility in Singapore by 1998 to produce acrylic acid, MMA monomer and water resins. Other planned ventures include a Mitsui Toatsu Chemicals Inc PVC plant in Vietnam and a joint-venture styrene monomer plant in southern China by Mitsubishi Chemicals Corp. Mitsubishi is also active in Indonesia, where a strong local textile industry is a draw for makers of polyesters.

Until now, the high cost of overseas sites and the need to achieve economies of scale to generate profits has been a key factor holding back Japanese investment. Chemical companies were hard hit by Japan's recession as many of their clients in the motor and electronics industries cut production or moved it overseas. Profits fell, leaving many without the cash to build new plants.

Japanese chemical makers have also been slow to react because the cosy domestic market left them structurally unprepared for change.

Close relationships with clients created an industry where makers produced small lots of many varieties of the same product, selling them to the same users. A Ministry of International Trade and Industry study last summer found that Japanese resin makers produced up to 20 times more varieties than their American competitors. Makers were kept fully occupied just meeting local needs.

Despite government urging, few companies were tempted to go overseas while profits remained so easy at home. Many were put off even more after an ill-fated foray into Iran in the early 1980s. A petrochemical plant being built by a group led by Mitsui & Co was severely damaged in the war with Iraq, and the Japanese finally abandoned the project, with losses of up to $2bn.

Changing circumstances have forced the companies to re-examine their attitudes, although it is still only the biggest three or four companies that have summoned up the courage to take the plunge.

ICI paintwork on a Thai temple – the west has a lot to lose

Japanese makers will not find the going easy in Asia. A booming South Korean industry, plus growth in Taiwan and China and the entry of US and European makers will heat up the competition.

Indonesia, China and South Korea will add a combined 1.5m tonnes of ethylene capacity this year alone. Foreign makers are also limited in their access to markets because of the desire of China and other developing countries to protect local industries.

South Korea is now a net exporter of chemicals and its companies promise to be some of the toughest competitors to the Japanese in the region. They are blessed with lower production costs and a currency advantage because the strong yen makes Japanese products more expensive on world markets. The normalisation of diplomatic relations with China has opened up to South Korean competition one of the markets on which Japanese hopes were pinned most highly.

Hyundai Petrochemical Co is planning two new refineries to come cnstream by mid 1996, while Samsung Fine Chemicals Co plans a joint venture with Union Carbide Corp and BP Chemicals to make vinyl acetate monomer for export to Asia.

Further down the road lie Taiwanese companies, expanding rapidly but still catering almost exclusively to domestic demand. The island's 40 petrochemical companies produced $7.5bn's worth of products in 1993, of which 87 per cent went for local consumption.

Planned expansions include a 400,000 tonne ethylene plant to be built by Chinese Petroleum Corp and a 1.35m tonne ethylene facility from Formosa Plastics Group, the largest private investment project ever in Taiwan. Increased exports will not be far behind.

■ THE PACE OF INVESTMENT: by Jenny Luesby

Fast breeder mentality

The creation of too much capacity is laying the basis for future crises in over-supply

The chemical industry has long been its own worst enemy in creating excess capacity when demand and prices are rising. Solemn vows to resist this temptation appear to have done little to curb the trend.

There has been some restraint among European producers of ethylene, the basic building block for many petrochemicals, where investments have been limited to particular plants.

But even the addition of a few thousand tonnes of capacity, by replacing a furnace or reactor tank, has left the European balance of supply and demand "poised on a knife edge", says Mr Tony Church of Wertheim Schroders.

Outside Europe there has been far less caution. In the US, five completely new ethylene plants are planned, in a regional market that analysts calculate is already oversupplied. In Asia, a plant building programme is set to add nearly 90 per cent to ethylene capacity, "leaving the region awash in ethylene," according to Mr Nicholas Smith of Jardine Fleming Securities in Tokyo.

This growth is being driven by competition between east and west for the only booming market in the world.

China, which is considering eight new ethylene plants, is determined to boost its domestic production of chemicals to reduce its dependency on imported raw materials. Regional companies such as Formosa Plastics of Taiwan and Map Ta Phut of Thailand are keen to carve out their own market share.

Meanwhile, European, American and Japanese producers, bound by the constraints of subdued consumer demand in their home markets, are desperate to expand in Asia.

The battle is not confined to ethylene. In many bulk chemicals expansions have been fuelled by the cash accumulated during last year's brief rise in chemical prices.

Traditionally, it is this cash that sets off the next industry cycle, with producers not only looking for investments, but aware that their competitors are doing likewise.


ICI's Richard Freeman: it's impossible to build them all

In commodity chemicals, used in everything from paints and pesticides to cosmetics and food additives, over-expansion hurts everyone, since one producer's chlorine, ethylene or methanol looks pretty much like another's.

With this in mind, many producers would rather be part of the over-investment than simply affected by the over-supply, a preference that has, repeatedly, boosted collective excess.

In the methanol sector, producers have already seen the price rises of last year eliminated, but plan to add nearly 12m tonnes of new capacity.

Mr Russell Phillips of Tecnon, the chemical industry consultancy, believes they will probably only go ahead with 2.7m tonnes of new capacity next year, 3m the year after, and 1m in 1998.

At this rate, the industry is likely to use more than 80 per cent of its capacity until the year 2000. But if the full 12m tonnes is added, the industry faces severe overcapacity.

The element of doubt over what capacity will actually materialise is pegged to the hope that many bulk chemical producers have been announcing expansion plans simply as a deterrent to others.

A case in point, says Mr Richard Freeman, chief economist at ICI, are the more than 40 new ethylene plants planned in Asia. It is not possible that these could all proceed, he says: "There is just not the engineering capacity to build them." But even if the current announcements prove to be empty bluster, chemical companies have money to invest, and they are under pressure from shareholders to secure growth.

Among the industry's star products, such as polypropylene, a plastic widely used by the car industry, and PET and PTA, used to make plastic drink bottles and polyester, this has prompted plans that herald years of over-supply in previously healthy markets.

Producers were aware of this by June, when Shell accompanied its announcement that it would be doubling the output of its PET plant in Italy with an acknowledgement that by the time the new capacity came on stream the market would be oversupplied.

But the announcements have not stopped. ICI's addition to its Teesside PET capacity, and its new PTA plant in Pakistan, have followed hard on the heels of expansions by Eastman, Hoechst, Nan Ya Plastics, Wellman and Rhône Poulenc. These will raise output in Europe alone by over 30 per cent.

The expansion in Europe is not confined to products that have been growing strongly. Brief shortages of PVC from the middle of last year prompted EVC to announce expansions in its PVC output of some 15 per cent.

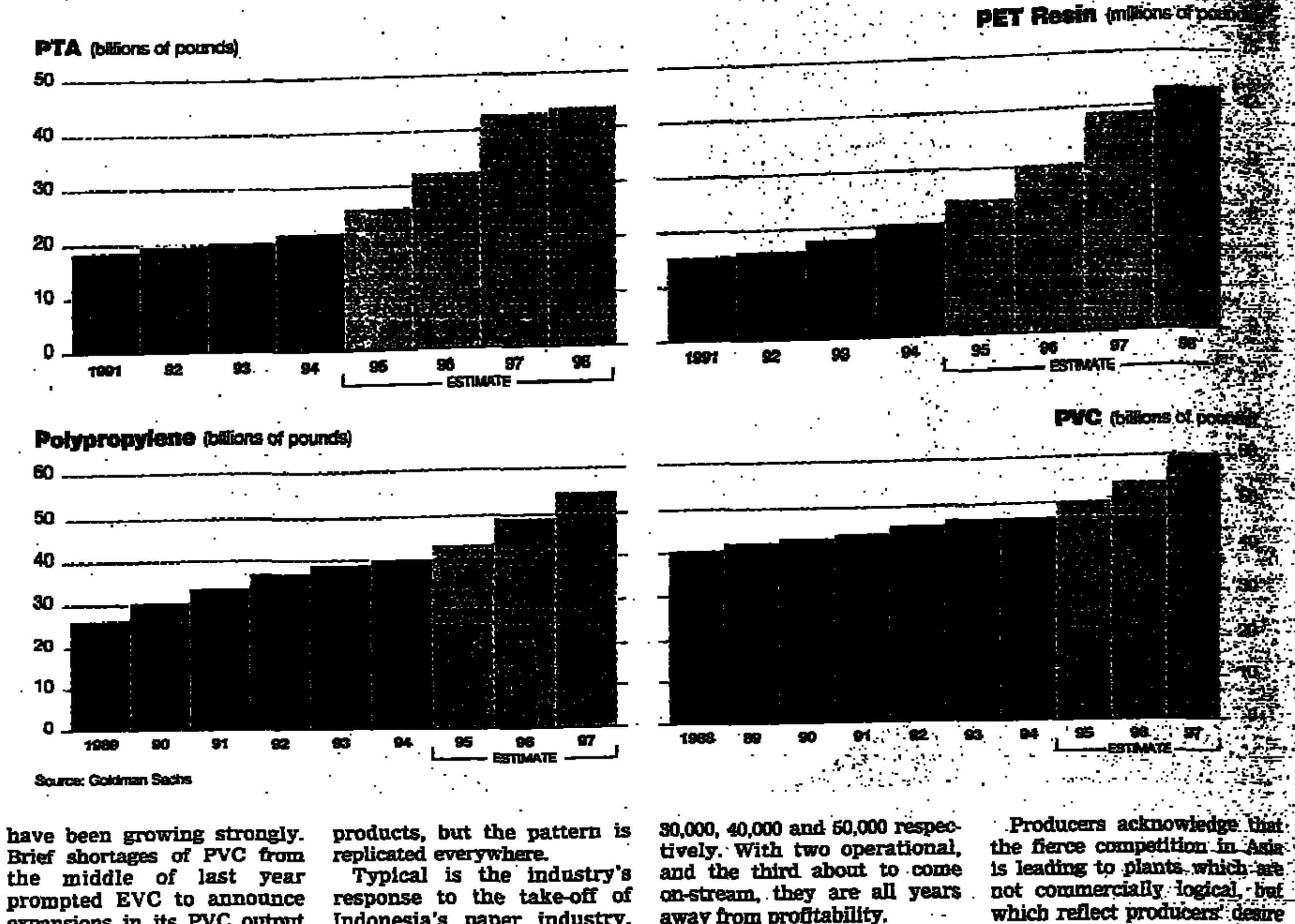
But at the bottom end of the industry's production chain – in the ingredients for consumer goods – it is the push into Asia that is causing the most over-supply. This sector encompasses thousands of products, but the pattern is replicated everywhere.

Typical is the industry's response to the take-off of Indonesia's paper industry. This has created demand for some 30,000 tonnes a year of latex, used to make glossy paper. In a mere six weeks, Rhone Poulenc, BASF and Dow Chemicals all announced latex plants in Indonesia, with annual tonnage capacities of 30,000, 40,000 and 50,000 respectively. With two operational, and the third about to come on-stream, they are all years away from profitability.

The same is true in Thailand, where western-owned plants, for products ranging from surfactants used in cleaning products to over-the-counter painkillers, are operating at less than 50 per cent capacity.

Producers acknowledge that the fierce competition in Asia is leading to plants which are not commercially logical, but which reflect producers' desire for a presence in the new territory. The alternative, they say, is a loss of market share.

By adopting this approach, the industry shows every sign of starting an investment binge – that will damage its profitability more than ever.



Asia's key to the future

Continued from Page 1

However, these businesses also stand to be affected by a take-off by Asian producers.

Demand for speciality chemicals is growing rapidly in Asia, but with the Korean, Taiwanese, Chinese and Indian producers all homing in on the market, price competition is fierce.

There is no technological barrier for local producers who want to start making food additives, hair shampoos or toothpastes. As a result, in agrochemicals, there are 260 competing producers competing for the Asean market, and 190 of them are Chinese.

Moreover, with local demand tending towards more basic products, it is difficult for western producers to achieve a premium in this situation. And their costs tend to be higher.

They need some local manufacturing to secure any sales at all, but with their raw materials often coming from the other side of the world their infrastructure costs are made higher.

In addition, western producers claim that dumping is widepread in the region, with Asian competitors "saturating the domestic market and then selling whatever is left extremely cheaply".

For these reasons, profits are much lower in Asia than elsewhere in the world, says Mr Klaus Grundmann, head of Ciba's additives division.

This is well-known in the industry, but companies are reluctant to trumpet it.

Many companies have altered their sales and profit breakdowns in recent years, so that it is no longer possible to work out their profit margins on chemicals produced in Asia.

Mr Jean-Marc Bruel, vice-chairman of Rhône Poulenc, says he does not know himself if the company's Asian operations are profitable: "And if I do not know, no-one knows."

Yet these same businesses are paraded as growth sectors, with Rhône Poulenc opening nine new plants in the region, Ciba six, BASF, five and Bayer, eight.

The problem for the industry is that, regardless of profitability, staying out of Asia can only make them smaller.

■ THE BUILD-UP IN ASIA: by Jenny Luesby

Stampede to raise the flag

Europeans have thrown caution to the winds in establishing new plants in Asia

In Europe and America, a single theme dominates the strategy of large chemical companies: they need to establish themselves in Asia.

Each has its own way of communicating the region's potential. Hoechst, which aims to lift its Asian sales to Y200bn by the year 2000, talks of a market the size of Switzerland being added every three months in China and India.

ICI, which has eight new manufacturing plants underway in the region, estimates that the chemicals market will have expanded from $280bn in 1990 to $460bn by 2000.

Bayer points to growth of around 13 per cent a year in the Asean chemical markets of Singapore, Indonesia, Thailand, Malaysia, the Philippines, Brunei and Vietnam.

With consumer demand sluggish and service sectors on the rise in OECD countries, such figures are generating real excitement. As a feeder industry to manufacturers, chemical companies have no option but to follow the market, says Mr Manfred Schneider, chairman of Bayer. And that, he says, means shifting production.

For most chemical companies, exports would be a more attractive option. With output per head that can reach $1m a year, chemical producers derive little benefit from Asia's low labour costs. The region's inadequate infrastructure can almost double initial investment costs.

In Indonesia, where BP Chemicals has built a polyethylene plant, "investment costs have been significantly higher than they would have been for a European plant", says Mr Mike Buzzacott, chief executive of the polymers and olefins division. More than 40 per cent of the $450m investment was spent on roads, a jetty, houses and other amenities.

Even after such outlays, producers report that power cuts can end up reducing the active time of Asian plants by up to 50 per cent.

But trying to enter the Asian market without local plants is even more problematic.

The difficulty for western entrants is not just that Asia has become the target of every chemicals company in the world, but that the chemicals that are required are often the product of ageing technology.

At the street level, there are soaring sales of aspirin rather than Prozac, hair shampoos rather than anti-ageing creams, and textile dyes and basic plastics rather than sophisticated industrial coatings or superstrong composite materials.

For these types of products "the technology can be bought anywhere," says a VCI, the German chemicals industry association. "It is no longer a competitive advantage for European or American companies."

Chemicals are also bought in much smaller quantities in Asia than in traditional markets, with pesticides often sold by the thimbleful rather than the sackload, according to one executive.

This combination of low-technology production and fragmented markets has spawned a mass of small local producers.

In agrochemicals there are 260 companies competing for the Asia Pacific market – "and 190 of them are Chinese," says Mr Esmail Zirakparvar, Rhône Poulenc's director for the region.

Likewise, in food additives, the region is dominated by "small copy-cat producers", says Mr Grundmann.

This is leading to crowded markets and intense price competition. As exporters, western companies also face bureaucratic hurdles with local customs and registration authorities, as well as the handicap of a low public profile.

For both Bayer and BASF, who are concentrating their efforts in the region on China, this has made local plants essential, leading to five and eight new manufacturing sites respectively. "The main goal," says Mr Schneider, "is to be an accepted partner by Chinese customers and the Chinese market."

BASF makes a similar point: "companies that invest abroad are taken more seriously by both customers and competitors in their target markets, which, in turn, helps raise exports," the company says.

On this basis, DuPont plans to invest $2bn in Asia by 2000, while Dow Chemical has begun a building programme which it hopes will double its regional sales of plastics and chlorine-based chemicals to £2bn, outside Japan, by 2001. Meanwhile, Ciba is building four new plants in the region, and Rhône Poulenc nine.

However, local production is no guarantee of sales. Some western companies are gaining ground through cost advantages.

ICI, which has this year unveiled new plants in both Taiwan and Pakistan producing raw materials for polyester, is confident of its market share, thanks to technology which means it can undercut its competitors on price.

But relative efficiency is not always enough. In Thailand, an aspirin and paracetamol plant acquired from Monsanto by Rhône Poulenc is the "most efficient analgesics plant in the world" says the company's country representative.

Yet fierce competition from four Chinese producers has seen it operating at less than 50 per cent of its capacity over the last 18 months. "These are really dumping conditions," says Mr Giles Barbier, the group's vice-president for Asia. "The Chinese are selling at prices below raw material costs."

Western companies report that such practices are widespread, with Chinese, Korean and even Japanese manufacturers frequently running loss-leader operations in order to squeeze other producers out of the market.

For Rhône Poulenc, the Thai plant has been saved through a shift in global strategy: from next year, it will be exporting back to Europe and America. In other areas, the company is trying to prevent a repeat of such undercutting through customising its products so they cannot be copied, and they can command a premium.

In Vietnam, this has seen it launch its new insecticide, Fipronil, in tiny kits, complete with plastic gloves, designed to be user-friendly to farmers with just one paddy field.

Such added value is essential to winning sales in the region.

At Rhône Poulenc, Mr Jean-Marc Bruel, the vice-chairman, confirms that profits are hard to come by in the region, but, he says, "we cannot afford to miss the boat. We still only have access to a small proportion of the population in these countries, but we need to be establishing a presence now so that we can grow up with these markets."

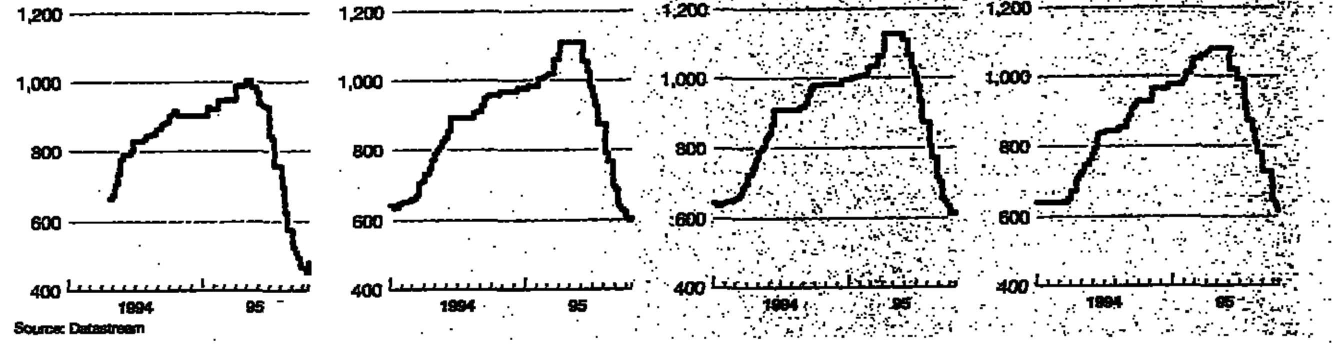
However, despite such emphasis on the importance of the region, western companies "are investing relatively little" as a proportion of their global capital expenditure, says Ms Hilfra Tandy, editor of the newsletter Chemical Matters.

BASF has pushed through one of the largest programmes, with investment of $300m over five years, but this is from an annual investment budget of some DM3.5bn.

For Ciba, which aims to lift sales in the region to 20 per cent of turnover within the next few years, capital outlay is still running at just 7 per cent of its world total.

In part, these budgets are being hampered by competition for local partners. Joint ventures make the whole process a lot less fraught, says Hoechst, "but with the level of knowhow in the region, the Asians do not really need us".

It is the western chemical companies that need Asia. Yet with profits set to remain elusive, and over-capacity a threat, it is far from clear that western chemical companies will emerge the winners from an industry shake-out in the region.



Producers' regional sales as % of global sales

	Europe	North America	Asia with Japan	Japan alone
DuPont	36	54	6	5
Dow	27	51	12	6
BASF	63	21	7	5
Bayer	51	24	13	7
Hoechst	53	23	10	8
ICI	42	28	16	5
Rhône Poulenc	53	27	8	4
Ciba	39	41	15	9

Source: Western Chemical Strategies in Asia, DIA Research Institute/Chuo Research Centre

■ SCIENTIFIC INNOVATION: by Clive Cookson

Breakthrough in mixing the molecules

A way of making hosts of new compounds may be the achievement of the decade

Innovation in the chemicals industry depends on discovering and developing a stream of new molecules. So a novel technology called combinatorial chemistry, which generates a previously unimaginable diversity of different molecular structures, may be the decade's most significant advance in chemical research.

Although combinatorial chemistry is being applied first in the field that has the most voracious appetite for new molecules – pharmaceuticals – it could also transform agrochemicals, materials science and even polymers.

The broad principle of the technology is to combine molecular building blocks into a "chemical library" of thousands or even millions of new compounds, and then screen them rapidly to pick out the few molecules with desired properties which are worth developing further. Possible tests range from activity against a particular enzyme (for candidate drugs or agrochemicals) to electrical conductivity (for potential superconducting materials).

The traditional philosophy of chemical synthesis is to devise the most efficient route to produce a single pure compound. In complete contrast, the combinatorial approach involves choosing promising building blocks and them putting them together in a vast number of random combinations to see which works best.

The challenge is not so much how to make a mixture of millions of compounds as how to label each one unambiguously. Then, if it gives positive test results, it can be identified and synthesised in much larger quantities for further investigation and refinement.

Combinatorial chemists have invented several different methods for achieving this. A favourite way is to attach the growing compounds chemically to the surface of microscopic plastic beads, which are similar in size to animal cells and can be manipulated with the instruments used in cell biology. (In bulk, they look like talcum powder.) Separately, inert tagging molecules are linked to the beads, to record the series of reactions each bead has undergone.

The tags are designed to be removed and decoded easily with standard laboratory instruments. For example, Affymax of Palo Alto, California – a leader in the new wave of start-up companies specialising in combinatorial chemistry, which was bought by Glaxo Wellcome of the UK for $533m early this year – uses short tagging chains of nucleotides, the building blocks of DNA. Pharmacopoeia, in Princeton, New Jersey, labels its beads with simple molecules containing fluorine and/or chlorine.

The combinatorial process has become practical through the use of robotics and computer-controlled parallel synthesis.

The first step is to divide the microscopic beads between a number of flasks – say, 20. Each undergoes a different chemical reaction, in which the first molecular building blocks and tags are attached. Then the beads are mixed back together and divided again into 20 vessels to undergo a second set of reactions and tagging.

By the time the process has been carried out five times, there are more than 1m anew compounds, each with distinctive tags showing which reactions it has undergone.

The reactions chosen will depend on what sort of chemical library the researchers want to create. Early work has concentrated on building up peptides (miniature proteins) from different combinations of the 20 naturally occurring amino acids. But chemists are now designing combinatorial reaction schemes for other chemical families, including the types of small molecules that are the mainstay of the pharmaceutical and agrochemical industries.

At the same time, the technology is advancing rapidly. In July, for example, scientists at the Scripps Institute in La Jolla, California, published a method for "liquid phase" combinatorial synthesis, as an alternative to the beads.

In June, researchers at Lawrence Berkeley Laboratory and the University of California, Berkeley, reported an important extension of the combinatorial approach to inorganic chemistry. They built up different compositions of metal oxide thin films, as materials with potentially novel electrical and magnetic properties.

One sign of excitement is the flow of investment funds into small companies specialising in combinatorial chemistry. At the same time, established pharmaceutical and chemical companies are also starting to exploit the technology.

It is too soon for products discovered through combinatorial chemistry to have reached the marketplace yet, though several are in development. Within a few decades, however, the combinatorial process is certain to become an important source of new chemicals.

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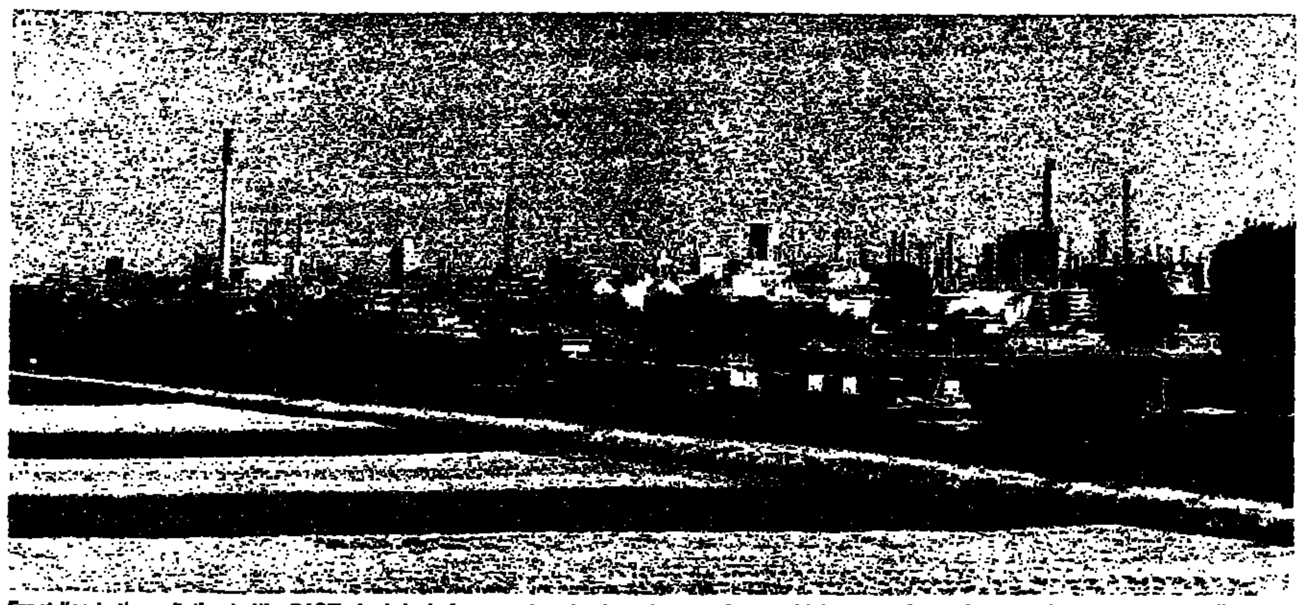
■ THE PROBLEM OF IMAGE: by Motoko Rich

Mori, Mori on the wall

The UK industry perpetually looks at its image and doesn't always like what it sees



Front-line in the pollution battle: BASF's Ludwigshafen complex, dominated by a 200-metre high power plant chimney and gas clean-up installation

The UK chemicals industry has a serious image problem. In public eyes it is often seen as the scourge of the environment or a bastion of unsafe practices.

Such views are often uninformed. According to a 1994 Mori poll on the sector's image, only one in 10 respondents felt they knew "a fair amount" about the industry.

Nevertheless, this did not prevent one in four respondents from viewing the industry "unfavourably". The only industry with a worse public image than chemicals was nuclear.

"I think the very word chemicals has a negative connotation," said Mr Michael Lynham, plant manager at the Newport, South Wales factory of Monsanto, the chemicals company.

"Chemicals are associated with something bad – with cancer and birth defects," says Mr Michael LeGraff, general manager for health, safety and environment at BP Chemicals, the UK manufacturer. "And then it is also associated with the fires, evacuations and spills people read about."

These disasters are the most powerful factor in determining the industry's negative reputation. Mr John Boler, head of community relations at the Chemical Industries Association, says: "Behavioural psychologists have told us that the negative issues last about three times as long as the positive ones."

"People think of incidents such as the Exxon Valdez spill and Brent Spar as negative incidents caused by the chemicals industry, even though they have very little to do with us," says Mr Boler.

Mori began tracing the chemical industry's image in 1979. Since then, favourable reactions to the sector declined to a low in 1992, and unfavourable responses peaked in 1991.

For interest groups such as Greenpeace, the industry's bad reputation is deserved. "It is quite difficult for the chemical industry to have a good image," says Ms Madeleine Cobbing, toxicity campaigner at Greenpeace. "Fundamentally many of the processes by which the companies make their products are polluting the environment."

Industry executives recognise that environmental issues dominate general concerns about the industry. "The main concerns of the public are: protecting the environment, reducing pollution and having their concerns listened to," says Mr Stuart Aaron, a Chemical Industries Association director.

Responsible Care, founded in Canada, is the industry's voluntary programme of continuous improvement in the safety, health and environmental protection. The CIA encourages companies to commit to the programme, setting targets for improvements, such as lowering accident rates, cutting emissions and restricting energy usage, and then to audit these processes.

The CIA, which sets the indicators of company performance, publishes the results of individual audits annually. The 1994 annual report, for example, recorded a 24 per cent drop in disposals of special waste off-site since 1990, while the lost time accident rate for employees rose to 0.52 accidents per 100,000 hours, compared with 0.47 in 1993.

Chemical companies are increasingly prioritising safety, health and environment, and developing management systems to deal with these issues. At Harcros Pigment Europe, a subsidiary of Harrison & Crosfield, management of SHE (safety, health and environment) is integrated within operational and line structure.

"In many companies SHE is managed by one person," says Ms Judith Hackett, Harcros's operations director of European manufacturers. "But we have integrated procedures to deal with these issues into every manager's job. We have a whole series of management and audit systems which has been incorporated into the line structure."

Safety, health and environment have also become additional benchmarks alongside productivity and return on assets. In many businesses in the chemical industry, SHE performance is measured against DuPont, the US chemical company, which is considered the leader in this area.

While improving performance is vital, communicating that performance is just as important in building a reputation. Most companies publicly declare their environmental and safety goals, and publish those results when they meet those targets. However, Greenpeace believes the industry does not get its message across. "Responsible Care may have been useful internally, but it does not seem to have worked as a means of communication," says Ms Cobbing.

According to the Mori poll awareness of the initiatives is low. Only one per cent of those interviewed identified Responsible Care with the chemicals industry, while 82 per cent had never heard of the programme.

Many companies say they have better luck communicating their missions to the local communities where they operate. Many companies organise Open Days, inviting the public to visit factories, liaise with local community action groups and develop educational programmes for local children.

"We are improving our relationships with local communities," says BP Chemicals' Mr LeGraff. "We get good feedback from people who have attended our open days. We do our own surveys around our plants and we get a much higher rating than the industry as a whole does on the Mori scale."

Some industry observers say the reason the public is so negative about the chemical sector is because it does not recognise the positive benefits society derives from the industry.

"There has been a shift during this half of the century from the chemical industry being viewed as something that was producing inventions that were revolutionising everyday life to something that is associated with toxicity," says ICI.

The CIA says it is reluctant to push the positive benefits of the industry too hard. "Simply underlining the benefits that we offer is no answer to the problems that the public articulates," says Mr Boler. "If you simply convey that message alone it actually makes the public more resentful of the industry because they realise they cannot live without our products and demand even higher stringency in controlling our emissions and safety record."

Mr Boler says the industry must improve its performance before it trumpets the benefits it offers to the end-consumer.

"When we get the performance right is the time to start speaking about it on a grand scale," says Mr Boler. However the "right" performance is elusive. "The goalposts are moving all the time. Ten years ago the public would have been highly satisfied with our performance. Now the public expects more."

■ EASTERN EUROPE: by Jenny Luesby

A wave of closures, and not many replacements

A big market waits to be tapped, but western investment has so far been sparse and patchy

High hopes for eastern Europe's chemicals industry, based on the belief that privatisation would open the door to foreign investment, productivity gains, and an under-exploited market, have borne little fruit to date.

At the top of the chemicals production chain, western oil companies have begun moving into the region, as have detergent manufacturers, Unilever and Procter & Gamble, at the consumer end. But between these two poles, investment has been sparse.

The industry, which was in its infancy as communism collapsed, is dominated by large, but isolated petrochemical complexes, which doubled their output during the 1980s, and chlorine, sulphur and sulphuric acid plants.

As the main supplier to domestic manufacturers, these bulk chemical producers seemed immune to the industry's global cycles, but were hit severely by the decline in regional industrial output.

Since then, only east Germany has benefited from large investment flows. In petrochemicals alone, it has mopped up DM3.5bn, and a further DM10bn of investment is planned over the next five years, much of it by Bayer and BASF of west Germany, and Dow Chemical of the US.

Grants have helped in this, although they have also delayed approval of some investments, with Dow's purchase of east Germany's three main petrochemical complexes held up by the European competition authorities.

But elsewhere in the region, foreign investment has been negligible. Nearly all of the established petrochemical plants are land-locked, and without pipelines. They thus depend on local supplies of raw materials and local markets.

They are also highly inefficient.Tecnon, the chemical industry consultancy, estimates it would take some DM190bn to rehabilitate the entire sector. In the absence of such funds, the region has witnessed a rash of plant closures.

In Bulgaria, the Burgas complex, which used to produce ethylene, PVC and propylene, has been the most serious casualty, while in the Czech Republic the Kralkupy butadiene plant has also gone.

But these two countries have otherwise survived relatively well. With the Czech republic linked by pipeline to east Germany's petrochemical sites, it has not been starved of raw materials in the same way as Romania. Bulgaria's industry, which was always small, is concentrated around ingredients for the drugs industry and soda ash, rather than petrochemicals.

> Some western companies bought plants with serious pollution problems

The Slovak Republic, Hungary, Poland and Romania have all been much harder hit.

However, the outlook in both Hungary and Poland is now improving. Hungary's relative position of strength, as the producer of the best quality plastics and pharmaceuticals in eastern Europe, has been helped by rapid progress in privatisation. The changeover is now complete in the pharmaceuticals industry, and petrochemicals are following.

In Poland, privatisation is even further advanced, with most detergent, paint and plastics production now in private hands, and the industry is showing early signs of takeoff. Despite low productivity caused by 10 years without investment, Poland's chemical industry output rose by 13 per cent last year, driven by a recovery in sales of fertilisers and synthetic fibres.

In Romania, however, privatisation has been stalled by the lack of investor interest.

The region's second largest petrochemicals producer, after Russia, Romania had five petrochemical complexes in 1990, but with nine of its largest plants since closed it is now struggling to keep up with its neighbours.

Foreign investments have begun to trickle in, with Virolite of the UK investing in a resins venture, Colgate Palmolive establishing a cosmetics joint venture, and Unilever taking a 70 per cent stake in the detergent maker Dero.

But throughout the country, chemical producers are being constrained by raw material shortages, which begin with the oil and gas to run petrochemical plants and continue downstream from there.

Chemical producers' dependency on local markets, rather than exports, has only exacerbated this by limiting their access to hard currency with which to buy imported raw materials.

According to Mr Manuel Linnig, spokesman for Eastman chemicals, which specialises in PET, the raw material for pressurised plastic bottles, PET plants are standing idle because western producers are not willing to extend the credit required by eastern European importers.

"It takes about 90 days from delivery of raw PET for eastern European producers to process it, sell the final product, receive hard currency in payment, and then pay for their initial raw material supplies," he says.

But western shyness extends beyond supplying raw materials. The difficulty in identifying suitable joint venture partners is among the most cited reasons for staying out of the market.

One or two companies have also had their fingers badly burnt by buying plants which they then found had serious pollution problems.

But, says Tecnon, with a population almost as large as western Europe's currently consuming only one-fifth of the volume of plastics, the market offers huge potential.

THE TROUBLE WITH CHLOROFLUOROCARBONS: by Motoko Rich

Safeguarding Mother Earth

How substitutes were found for widely used CFC gases in fridges and airconditioning

Some like it cold: residents of the Antarctic where depleted ozone has raised the temperature

The Louisiana Superdome, the world's largest indoor stadium, is a monument to the American passion for air conditioning. When outside temperatures in surrounding New Orleans ascend to humid heights, the fully enclosed structure, which seats 80,000 fans, is kept constantly cool.

Until earlier this decade, chemical manufacturers met the insatiable desire for air conditioning, as well as for refrigeration, with chlorofluorocarbons – or CFCs. Since the 1950s, these CFCs have been used as coolants in virtually all air conditioning and refrigeration applications. To a lesser degree, the gases were also used in aerosol sprays, foams and solvents.

However, under the internationally-agreed Montreal Protocol, originally signed in 1987, US manufacturers must phase out production of the CFCs, which have been shown to deplete the ozone layer and cause global warming, by the end of this year. In the European Union, production ceased at the end of 1994.

Chemical manufacturers have been bracing themselves for the halt in CFC production by developing and investing heavily in alternatives to the environmentally-damaging gas. To date, Imperial Chemical Industries has invested more than £300m in Klea, its hydrofluorocarbon (HFC) alternative to CFCs.

DuPont, the US chemical company, has invested more than $500m, both in HFCs and HCFCs, a halfway-house between CFCs and HFCs.

The main replacement developed by these companies for car air conditioning systems and domestic refrigerators is HFC134a. HFCs contain no chlorine, which is responsible for ozone depletion. Due to the high levels of investment at plants across the world, a lot is riding on the success of this product.

ICI and DuPont, as well as Elf Atochem, the French chemicals company, has been selling the CFC alternatives since the turn of the decade. However, both DuPont and Elf Atochem say they have not yet received a return on their investments, due to a slower-than-expected penetration of the market formerly dominated by CFC.

"We expect to wait a while to get a return on investment so there is some disappointment in this industry," said Mr Vivian Sheridan, DuPont's fluorochemical spokesman in Geneva. "The opportunity is also narrower than we had anticipated because customers have moved to other types of products in aerosols and solvents." He estimated that the market potential was about one-quarter that of the CFC market.

Clean air zone: BOC changes the coolant in the ice-cream fridge on the viewing gallery of Blackpool Tower in NW England

In the mid-1980s, 35 producers made 1m tonnes of CFCs a year for sales of about $3bn. R12, the general-purpose coolant used in car air conditioning systems and domestic refrigerators, commanded 35 per cent of the market – or 350,000 tonnes.

Mr Geoffrey Tudhope, managing director of ICI Fluorochemicals, said the potential market for CFC alternatives was more likely to be halved by the beginning of the next century. "New technology means you need lower initial charges when you load a system with HFCs," he said. "Lower leakage and recycling and recovery of the gases means that you will have about half the size of the market that you had originally."

He estimated that, early next century, the market would settle at around 200,000 tonnes a year, adjusting for some growth due to Asia Pacific, Eastern Europe and other developing countries, where increases in the standards of living will most likely lead to more refrigeration and air conditioning.

In the short term, Mr Tudhope says growth is being held back by black market imports of CFCs from Russia, which has appealed to the United Nations for an extension to the Montreal Protocol deadline. It is now pleading that it should be considered as a developing country, which would give it a five-year grace period until the year 2000 to stop producing CFCs.

Mr Tudhope estimated that about 30,000-40,000 tonnes of CFCs are being smuggled into the US, at a value of about $300m, making the gases Miami's second most profitable contraband. A further 10,000 tonnes are believed to be entering the European Union illegally.

In the US, a tax on CFC-use designed to deter users has had the reverse effect. The tax multiplies the unit price of the gas by about seven times, a mark-up which is being undercut by importers.

Users have also been slow to convert to HFC134a because of the cost in adapting existing equipment to accommodate the new gases.

Another restraint on the growth of the HFC market is that consumers are now faced with other coolant alternatives to CFCs, some of which are not manufactured by the chemicals industry.

Greenpeace warns that, although HFCs do not damage the ozone layer, they have a potential global warming effect, a claim which the chemicals industry says is overstated.

Greenpeace has suggested that refrigerator makers turn to hydrocarbons and ammonia, although ammonia is flammable, explosive and highly toxic. Nevertheless, the environmental pressure group has been successful in persuading some domestic refrigerator makers to use such solutions rather than those offered by the chemicals industry.

However, Mr Jacques Savois, director of the fine and speciality chemicals division at Elf Atochem, says Greenpeace's solutions are only being used in "minor applications for domestic refrigeration". He said the automotive air conditioning and commercial refrigeration markets were much more significant.

At present, the industry believes that because of slow penetration of most markets, there is about 20 per cent over-capacity of HFC134a.

Mr Tudhope believes that spare capacity will be taken up early next century. In the first quarter of next year ICI plans to triple its original capacity of HFC134a in the US to 31,000 tonnes.

He said the slow penetration of HFC134a is an inevitable consequence of introducing a new and untested product on to the market.

CHLORINE AND ITS CRITICS: by Clive Cookson

Double edged, golden sword

Chlorine is among the most widely used chemicals. It is also the most controversial

The chlorine industry is under more pressure from environmental campaigners than any other sector of chemicals manufacturing.

Greenpeace's long-term aim is a "chlorine-free industrial society" with a global ban on organochlorine production. (Most applications of chlorine involve organochlorines – compounds that have at least one bond between a chlorine and a carbon atom.)

Others are focusing on particular chlorine chemicals. For instance, the London-based Women's Environmental Network wants to phase out Lindane, the most widely used organochlorine insecticide in the UK, which it suspects is partly responsible for the country's high incidence of breast cancer.

Some chlorine compounds have already been banned for environmental reasons, including various pesticides such as DDT which harm human health and wildlife, and chlorofluorocarbons (CFCs) which destroy the protective ozone layer in the upper atmosphere.

Yet the commercial reality is that the chlorine industry continues to grow in spite of the campaign against it.

According to Euro Chlor, the manufacturers' federation, European production and demand for chlorine leaped by 8 per cent in 1994, reflecting the general economic upswing.

Ironing out the ups and downs of business cycles, most analysts are predicting long-term growth of about 2 per cent per year in the global demand for chlorine.

Fuelling the growth is the increasing use of polyvinyl chloride (PVC), the biggest single application of chlorine. For the automotive and construction industries, PVC offers a combination of durability and cost effectiveness that is not matched by any other plastic.

On the other hand, the use of chlorine for manufacturing wood pulp and paper is declining steeply as a result of environmental restrictions.

Not surprisingly, the industry and its opponents have completely different approaches to environmental regulation. Corporate spokesmen emphasise the diversity of the industry and its activities, arguing that processes and products should be controlled on a case-by-case basis.

As Baron Daniel Janssen, president of Belgium's Solvay, put it: "Industry recognises it may sometimes be justified to take precautionary action to prevent irreversible or extremely serious environmental damage... But this is a principle that must only apply to those individual organochlorines that are simultaneously persistent, toxic and bio-accumulative."

Baron Janssen said there were at least 17,000 different organochlorines, each with distinct properties that should be assessed separately rather than on "an overall basis which is based upon a purely nominal association with chlorine".

Greenpeace, in contrast, emphasises the similarity between organochlorines – and the impracticality of testing 17,000 individual chemicals – in its argument that the present piecemeal regulations should be replaced by a global agreement to phase out organochlorines as a class.

A Greenpeace report on the health effects of chlorine, released this summer, said organochlorines shared certain common properties: stability, toxicity and lipophilicity (solubility in fats and oils, which leads to accumulation in the fatty tissues of plants and animals).

"Some organochlorines are less persistent, toxic and lipophilic than others," Greenpeace said. "However, the manufacture, use and disposal of even the least harmful organochlorines is accompanied by the unintentional formation and release of organochlorines that are extremely persistent, toxic and lipophilic."

Organochlorines have been associated with a wide range of toxic effects in animals and people, including damage to the reproductive, nervous and immune systems, liver and kidneys, and cancer.

Chlorine use in W. Europe (000 tonnes p.a.)

	1990	1994
Pure chlorine	448	171
Solvents	503	341
Chlorinated polymers (incl. PVC)	4,135	4,193
Non-chlorinated polymers	2,217	2,405
Inorganic chemistry	1,390	1,493
Intermediate Chemicals	562	454
TOTAL	9,255	9,057

Source: Euro Chlor

Particular concern has been expressed recently about the way low levels of organochlorines in the environment may mimic the effects of human sex hormones. They have been blamed for the much publicised decline in male fertility over the past 50 years and the simultaneous increase in cancers and other disorders of the reproductive organs.

However, epidemiologists are far from unanimous in their view that man-made "pseudo-hormones" are undermining male fertility amongst people or wildlife. Although three studies have found that an average man today produces only half as many sperm as his counterpart 50 years ago, other researchers have challenged their methodology and conclusions.

Even if the fall in sperm counts is confirmed, it will be extremely difficult to pin responsibility on specific chemicals. Organochlorines are not the only man-made compounds that could in principle mimic or interfere with hormones.

At the same time, the industry is anxious to point out that organochlorines occur naturally throughout the environment. Millions of tonnes a year of simple compounds, notably methyl chloride, are generated in the oceans. The biosynthetic pathways of micro-organisms, higher plants and animals produce more complex organochlorines. The Ecuadorean tree frog, for instance, makes a chlorine-containing painkiller called epibatidine that is 200 times more powerful than morphine.

Volcanoes and natural forest fires even make small quantities of polychlorinated biphenyls and dioxins – among the most notorious by-products of the chlorine industry.

Green campaigners respond that the existence of natural organochlorines does not justify overloading the environment with a greater diversity of synthetic versions.

As the argument continues, however, it is clear that environmentalists are not having things all their own way. In Germany, for example, some public authorities are lifting restrictions on the use of PVC in building projects.

The industry is helping its case by continuing to reduce discharges and increase recycling. An analysis by Ecotec, an independent German research institute, found that 36 per cent of European chlorine production was recycled.

The outlook for chlorine, then, seems to show modest growth for the industry as a whole – held back by environmental worries but not actually thrown into reverse.

The picture could change for the worse, however, if scientists produce convincing new evidence to show that organochlorines in the environment are causing serious harm. People would be prepared to sacrifice the chlorine industry if they really believed that future human fertility was at stake.

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■ THE VOLATILITY OF CHINA: by Ian Young

The shock went round the world

This year's imports clampdown by China taught world producers a lesson they cannot forget

When China stops buying chemicals, world markets stagger.

That is what happened this year. In May, a clampdown on corruption and tax evasion at China's southern ports, ordered by President Jiang Zemin and vice premier Zhu Rongji, reduced plastics imports to a trickle and sent international prices into a downwards spiral.

As the world's largest export market for plastics, China has become instrumental in setting world prices. But the importance of its buying policies extends beyond plastics: in 1993, China sucked in \$11bn worth of chemicals imports.

With the outlook *for the* entire industry depending on this market, the Chinese government's aim of establishing the country as a leading pro*ducer of chemicals* is coming under intense scrutiny.

Few doubt that overall demand will continue to flourish. China consumed some 7m tonnes of plastics in 1993 – for agricultural film and to supply the burgeoning plastics processing industry in its coastal Special Economic Zones. This figure is forecast to rise to 13m *tonnes by the year* 2000.

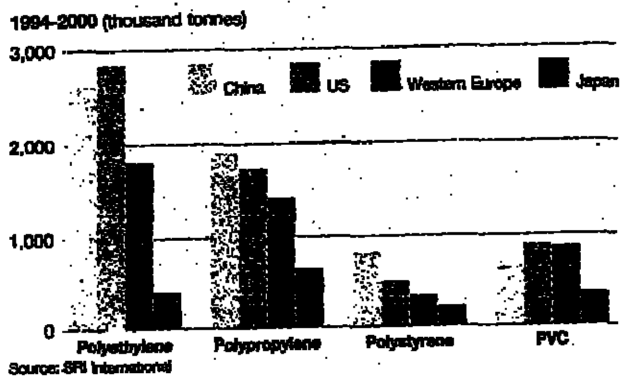
The big question is to what extent this demand will be satisfied by imports.

In 1993, China bought more than half of its plastics overseas. And last year, Chinese imports of polyolefins, which *are the petrochemicals derived* from the heavier fractions of oil, accounted for 13 per cent of world trade, according to Mr Jin Yang Chang, executive managing director at Daelim Industrial, South Korea's biggest polyolefins producer.

Mr Jin predicts this share will rise to 19 per cent by 2000, a view supported by Mr Huw Williams, an analyst with Schroders in Hong Kong.

"In most sectors of the industry, especially plastics and fertilisers, demand growth of more than 10 per cent is likely to outpace both economic growth and domestic supply growth," says Mr Williams.

Projected increase in plastics consumption



Source: SRI International

Rose-coloured spectacle: two Israeli collective farms are hoping to boost a wide range of crops by up to 30 per cent by growing them under fluorescent plastic sheeting treated by BASF of Germany

The main reason for this is the relatively small scale of the country's current chemicals base.

As a whole, the Chinese chemicals industry recorded annual sales of more than \$50bn last year, ranking it sixth in the world behind the US, Japan, Germany, France and the UK. And in fertilisers, agrochemicals, soda ash and dyestuffs, it is the world's sec*ond-largest producer.*

Chemicals is China's fourth largest industry, behind textiles, machinery and metals, accounting for around 8 per cent of GDP and more than 12 per cent of manufacturing employment.

But with 22 per cent of the world's population, China accounts for just 4 per cent of global chemical production.

On a per capita basis, its potential domestic supply of ethylene, which is the starting point for most petrochemicals, is just 3.7 per cent of that in Japan.

Yet plastics consumption is already running at 6kg per head compared with a world average of 20kg. As domestic demand for plastics rises, the country is starting a long way behind in its capacity to produce the raw materials for plastics.

Beijing is keenly aware of this gap, and of the need to boost its chemicals industry generally.

With only 10 per cent of its land under cultivation and a population that grows by 15m a year, the government is desperate to maximise grain production. It can only do this by boosting supplies of chemical fertilisers and pesticides.

The rapid development of other industries such as automobiles and electronics also depends on a constant supply of plastics, paints and other chemical products.

For these reasons, the Eighth National People's Congress in 1993 identified chemicals as a "pillar industry of the national economy", and entrusted China Petrochemical (Sinopec), the Ministry of Chemical Industry (MCI), and China National Chemical Import and Export (Sinochem) with developing the sector.

The three authorities have set ambitious targets in the country's forthcoming ninth Five-Year Plan (1996-2000), which include:

- attracting \$10bn in foreign investments;
- raising China's total chemical output value to Yn905 bn;
- increasing the proportion of production accounted for by sophisticated, higher added-value speciality chemicals *from 35 per cent to 50 per cent;* and,
- cutting energy consumption per unit of production by 12 per cent.

"The plan is to elevate China's chemical industry to international levels by 2000," says Ms Gu Xiulian, China's chemicals minister.

This will require massive investment and efficiency improvements at the country's many loss-making state-owned enterprises, which is only likely through joint ventures with foreign partners.

Yet Shell is still awaiting approval for a long-delayed \$6bn refinery and petrochemicals complex in Guangdong province approved in the last five-year plan. And many of the 14 ethylene projects approved last time have been stalled by the tight squeeze on credit for capital projects caused by the government's anti-inflation policies.

As a result, annual production growth in the Chinese chemicals industry has averaged 8 to 9 per cent over the past five years, slower than in other key industries and the growth in consumption.

This may now change, with the need for growth becoming increasingly urgent. China has begun opening up to international competition by cutting tariffs, in the hope of being admitted into the World Trade Organisation, and removing subsidies from the domestic price of raw materials such as oil.

Indeed, oil is becoming a particular pressure point: the country last year became a net importer of crude oil and, according to Sinopec, its import requirement could grow to almost 40m tonnes a year by 3000.

With this in mind, provinces such as Shanxi and Jiangsu, with vast coal reserves, are now courting western chemical companies that possess proven coal-to-chemicals technology, such as *Eastman Chemical of* the US. Such schemes are among dozens of projects vying for inclusion in the next five-year plan.

With the plan expected to raise ethylene capacity from 2.4m tonnes a year to 5m tonnes a year, several overseas companies, including BP Chemicals, are in negotiations with *Sinopec.*

"We are evaluating sites and contenders", says Mr Paul Pearson, BP Chemicals chief financial officer, in line with a "real interest and aspiration to have a major petrochemical complex in China".

Dow Chemical of the US is also studying locations for a \$4bn-\$5bn ethylene and chlor*alkali complex. "We would like* to get our project into the plan, but we will not be too concerned if we do not," says Mr Denis Wilcock, president of Dow Chemical Pacific. "Ours is such a large venture that we should get approval."

The final selection, currently being thrashed out by the MCI, Sinopec, the State Council and *State Planning Commission,* is not due to be announced until March.

But with western producers' dependency on the Chinese market now clearly established, the race is on to make the ties closer by setting up within China.

An ICI street sign in China: a massive market that cannot be taken for granted

■ SYNTHETIC FIBRES: by Tim Burt

Nylon faces the old enemies

The battle is on to meet resurgent competition from natural fibres and cheap suppliers

Manufacturers of synthetic fibres have taken a battering in recent years.

Hit from all sides, they have suffered from rising raw material prices; a return to natural fibres; patchy consumer demand; rising production costs; and stiff competition from Asia.

Many of these problems have eased over the last year, as consumers have switched out of the prohibitively expensive cotton and wool markets, but the relief may be temporary.

Small wonder then that there has been a shake-out in the industry. In the past three years, some of the world's larg*est manufacturers have closed* plants and abandoned some products altogether. Others have pooled resources in joint ventures or sold businesses where margins remain as thin as a nylon sheet.

Still, it would be premature to say the industry has some sort of terminal wasting disease.

In western Europe and North America, it is countering the tide of cheap imports from the Pacific Rim and Asia by investing heavily in new technology and innovative materials.

Courtaulds, the UK chemicals group, sets itself as a champion of this trend. It has endured some heavy restructuring and cut its workforce. At the same time, *some* £40m a year has been invested in research and development of new products, dominated by Tencel, the new viscose.

Donald Anderson, head of investor relations at the company, says Tencel has all the advantages of synthetics – strength, durability and economy – with some of the style and feel of natural competitors.

Although it produces 20,000 tonnes a year and has received rave reviews in the US and Japan, Tencel remains a drop in the estimated ocean of 41.6m tonnes of fibre produced around the world – of which 51 per cent is now *man-made.*

"Most companies are doing more of the same," Anderson claims. "Only Akzo Nobel, *Lenzing* and *Courtaulds* are experimenting with new things such as filament yarn."

But that does not mean their competitors are standing still. Rather, they are concentrating on what they do best. For example, Germany's BASF group underwent a big restructuring and focused its fibre efforts on six nylon products and withdrew from others.

Dr Werner Burgert, president of BASF's fibre products division, recalls: "We were not big enough to have critical mass in all fibres. So we got *out of polyester and sold the* rayon business. Now it's just nylon."

The costs may have been high last year with the workforce cut by 30 per cent to 4,800. But this year's first quarter profits were up 152 per cent at DM880m, on sales up 29 per cent, in the plastics and fibres division.

This *was largely due to soar*ing prices and demand for plastics, but the improved market for fibres also helped.

On the same basis, Hoechst, Germany's largest chemical and pharmaceutical group, saw profits rise *by 96 per cent in* the first half, while turnover at its US fibres *subsidiary* rose 19 per cent to \$4.1bn. It also gained from restructuring, relocating production to lower cost economies such as Mexico and slimmed its workforce.

"It shows that companies can still make a very good living out of fibres," according to Colin Purvis, director general of the International Rayon and Synthetic Fibre Committee – the CIRFS.

He admits, however, that manufacturers such as Courtaulds, BASF and *Hoechst have* flourished mainly by shedding old methods and specialising on higher-added-value materials.

Most western European and North American fibre manufacturers have struggled to compete against cut price competition from the Far East. Instead, they have carved out new markets in high technology and recycled products. Courtaulds cites Tencel as its innovative fibre; Hoechst boasts Trevira, a "high tenacity" industrial material; and BASF its Basofil *temperature resistant fibres.*

They are not alone. Dupont has developed lightweight polyesters for use in cold weather clothing, branded as ThermaStat and Thermax; while sportswear group Reebok *is negotiating to make use of* Akwatek, a chemically treated polyester for use in warm and cold weather.

Such innovation, says Mr Purvis, demonstrates how companies have added value so that they can pass on raw material price increases. Those increases have, in the past year, been sharper than almost ever before. The only consolation, perhaps, is that price rises for natural fibres have been almost as steep.

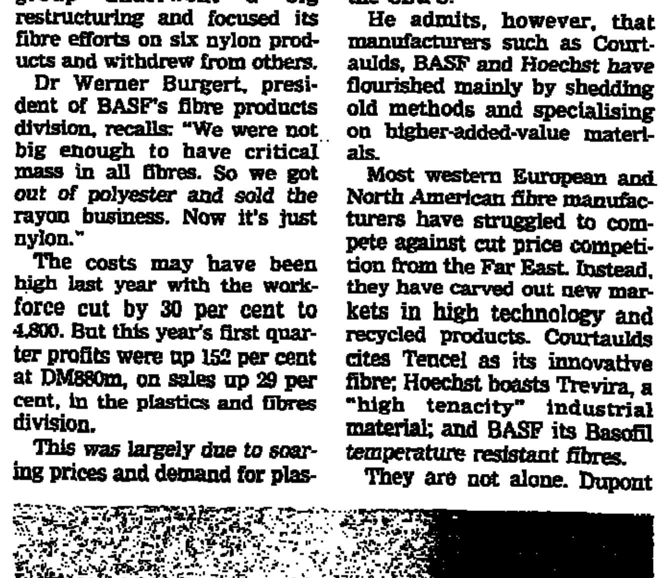
Investment in technically superior synthetic fibres, *meanwhile,* has also attracted a revived following among fashion buyers. Sporting nylons, Lycra and acrylics are doing quite well. But the rate of growth is slow. Demand for domestic textiles such as curtains, upholstery and carpets is also growing, but not fast.

Only in industrial textiles, used for filtration equipment, tyres and construction materials, are sales rising rapidly. "High technology products for industrial use are the fastest growing part of the sector," says Mr Purvis. "And we predict it will take a greater proportion of total fibre output."

The need to pool resources in industrial applications has persuaded manufacturers to embark on joint ventures, enabling them also to spread the cost of new product development.

Courtaulds, for example, has created Europe's *largest* polypropylene film producer by merging its film interests with Hoechst. BASF, meanwhile, has signed a joint venture to produce carbon fibres in China for industrial use.

"You could see further joint ventures among the big players, while smaller companies in areas such as Scandinavia could disappear," says Donald Anderson at Courtaulds.



Australian sheep: still alive and kicking

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FINANCIAL TIMES
COMPANIES & MARKETS
Friday October 27 1995

IN BRIEF

Surge continues at Commerzbank

Commerzbank, which is about to raise DM1bn ($700m) from an international share placing, continued its steep profits rise in the first nine months and said it expected a good result for the whole of 1995. Operating profits rose 114 per cent to DM1.22bn, reflecting the absence of last year's bond portfolio write-downs and higher trading profits. Page 22

Sandoz pushes sales up 3%
Sandoz, the Swiss pharmaceuticals and chemicals group, achieved underlying sales growth of 3.1 per cent to SFr3.2bn ($2.83bn) in the third quarter, thanks to continuing strong growth in its core pharmaceuticals and nutrition businesses. Page 23

Japanese electronics groups rise strongly
Five of Japan's leading electronics manufacturers reported strong rises in parent profits in the first half, and predicted that full-year sales would reach record levels on buoyant demand for electronic components and information and communications equipment. Page 24

Matsushita signs $100m games deal
Matsushita, the Japanese group which is the world's largest consumer electronics company, plans to expand its video games interests after signing a $100m contract with 3DO, the graphics technology specialist, to develop a new generation of 64-bit games systems. Page 24

Boeing warns strike will hurt deliveries
Boeing of the US, the world's largest aircraft manufacturer, confirmed that a strike by 33,000 workers would result in delayed aircraft deliveries in the fourth quarter, with a corresponding drop in earnings. The company announced third-quarter net earnings of $225m. Page 25

Riverwood to go private in $2.7bn buy-out
Riverwood International, the US paper packaging group 81.3 per cent owned by Manville, is to be taken private through a $2.7bn leveraged buy-out. Shareholders are being offered $20¼ a share and Manville has indicated it will accept. Page 25

Danka shares slip on purchase plans
Shares in Danka Business Systems fell sharply in London after the UK photocopier group unveiled plans to buy Infotec, a Dutch-based photocopier and fax machine distributor, for £109m ($172m). Page 26

US group secures Dobson Park takeover
Harnischfeger Industries of the US secured an agreed takeover of UK rival Dobson Park Industries after increasing its offer to 130p a share, valuing the British company at £203.6m. Harnischfeger pledged to create one of the world's largest mining equipment manufacturers. Page 27

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Aachen Mch Rg	948	+	18
Asko	800	+	44
Asko Prf	748	+	58
VEW	460	+	9.9
Falls			
Henkel	510.5	–	12.5
Rheinelektra	1198	–	27
NEW YORK ($)			
Rises			
Anheuser Bsch	66¼	+	1½
Sun Micro	72¾	+	1
Falls			
Chemical Bnk	54⅛	–	2¼
Chase Mnhttn	54¼	–	2¼
JP Morgan	75	–	2¾
Xerox	131	–	3⅝
LONDON (Pence)			
Rises			
Cheam B	550	+	20
Legal & Gen	670	+	29
Pegasus	240	+	19
Falls			
Cambrian Phpps	128	–	13
Danka Buss	489	–	67
ICI	779	–	24
TORONTO (C$)			
Rises			
Goran Cap	10¼	+	⅛
Melcor Dev	10¾	+	¾
Memotec Comm	9¾	+	1⅛
Falls			
Dofrina Corp	20½	–	2½
Pancdn Pete	42½	–	2¼
Potash Corp	92¼	–	4¾
PARIS (FFr)			
Rises			
CGIP	940	+	15
Euro RSCG	474	+	14
Imetal	589	+	19
Falls			
Cred Local	390	–	6.5
Damart	4450	–	350
l'Oreal	1134	–	68
TOKYO (Yen)			
Rises			
Toshoku	506	+	14
Falls			
Chuo T & B	950	–	35
Hino Motors	742	–	38
Honshu Ppr	581	–	18
Mitsui Pet	820	–	25
NTN	608	–	22
HONG KONG (HK$)			
Rises			
Champion Tech	1.02	+	0.09
Emperor China	1.25	+	0.17
Emperor IHL	2.725	+	0.30
Falls			
Peregrine Inv	9.8	–	0.35
Sime Darby HK	8.05	–	0.35
Wing Hang Bnk	25.15	–	0.85
BANGKOK (Baht)			
Rises			
Siam City Cred	111.0	+	7.0
Thai Iron Wk	74.5	+	4.5
Varopakorn	68.5	+	5.5
Falls			
Jack Chai Ind	35.25	–	3.75
Sorntech Grp	38.5	–	2.5
Sunwood Inds	30.5	–	3.25

New York and Toronto prices at 1.30pm.

Bond issue expected at Gazprom

By Robert Corzine in London & John Thornhill in Moscow

Gazprom, the Russian natural gas monopoly, is expected to issue a convertible bond as the centrepiece of its efforts to bring a western energy company on to the company's share register.

The bond, which analysts say will be one of the largest such debt offerings made by a Russian company, is expected to be the subject of an "auction" between a handful of large western energy companies in talks with Gazprom over forging a strategic alliance.

Details of the bond may be unveiled today when senior Gazprom officials address a conference in London.

Negotiations between Gazprom, the crown jewel in the Russian economy, and about five western companies are said to be at a delicate stage. Gazprom would like to sell 9 per cent of its equity to a combination of foreign trade buyers and international institutional investors.

Gazprom's advisers stress that although they want to introduce a competitive element into the bidding, price will be only one factor. Gazprom wants to link the offering with the selection of one of two "special partners" in the West, with whom it will conclude commercial agreements.

Kleinwort Benson, the UK merchant bank which is advising Gazprom, says an institutional offering of Gazprom shares is still planned. But it has been delayed until after the conclusion of a successful trade sale, which will help establish a credible market value for the company.

Gazprom is said to favour a convertible bond over issuing ordinary shares or global depository receipts. This is due to the success they have had over the past year in raising loan finance from the West.

The company says the convertible bond would also offer greater security to a western company. A traditional convertible loan with coupons and redemptions "ringfences the Western investor", said one official yesterday.

The proposed Gazprom offering would differ from a recent £275m convertible bond that was issued by Lukoil, Russia's largest oil company, and which was subscribed to by Arco, the US oil company. The Lukoil offering was essentially an equity deal with a forced conversion, say Gazprom advisers.

Deutsche Morgan Grenfell, the German-owned merchant bank, is working on proposals to sell about $50m of proxy shares in Gazprom to establish a benchmark price for any capital-raising exercises.

In order to skirt the tight restrictions on foreign ownership of Gazprom shares, Deutsche Morgan Grenfell wants to issue global depositary receipts in a Russian company whose sole assets are Gazprom shares. But the deal still needs the prior approval of Gazprom's board before it can be finalised next week.

If successful, it could pitch Deutsche Morgan Grenfell and Kleinwort Benson into a "glove's off fight" over Gazprom, according to one financier. Not only are Morgan Grenfell and Kleinwort Benson traditional merchant bank rivals in the UK but their respective parent banks, Deutsche Bank and Dresdner Bank, are fierce competitors in Germany.

Postbank lines up partners in bid fight

By Michael Lindemann in Bonn

Postbank, the German state-owned postal savings bank which is trying to fend off a DM3.1bn ($2.2bn) hostile bid from the postal service Deutsche Post, yesterday said it planned to sell strategic stakes to a group of three other German banks and insurance companies.

Postbank said the Volksfürsorge insurance group planned to take a 20 per cent stake in Postbank and the BHW building society group would take a further 10 per cent. BHF Bank, which will advise Postbank on its expansion into money market and equity funds, plans to take a 5 per cent stake.

Letters of intent have been signed with all three companies but Postbank said the prices would only be fixed once an independent investment bank, which is to be appointed next week, has valued Postbank.

By naming the three partners, Postbank hopes to escape the snares of Deutsche Post which launched its takeover bid last month together with Deutsche Bank and Schweizerische Rückversicherung, the Swiss reinsurance company.

However, it remains unclear whether the new Postbank line-up will impress Mr Wolfgang Bötsch, the post and telecommunications minister, who will make the decision about Postbank.

Mr Bötsch will next week commission an independent investment bank to value Postbank and to recommend a solution. The minister has indicated a preference for the Deutsche Post proposal because he is under a constitutional obligation to keep as many postal branches open as possible.

Deutsche Post insists that through the takeover it can do that because the financial services it could then offer would help increase the profitability of individual branches.

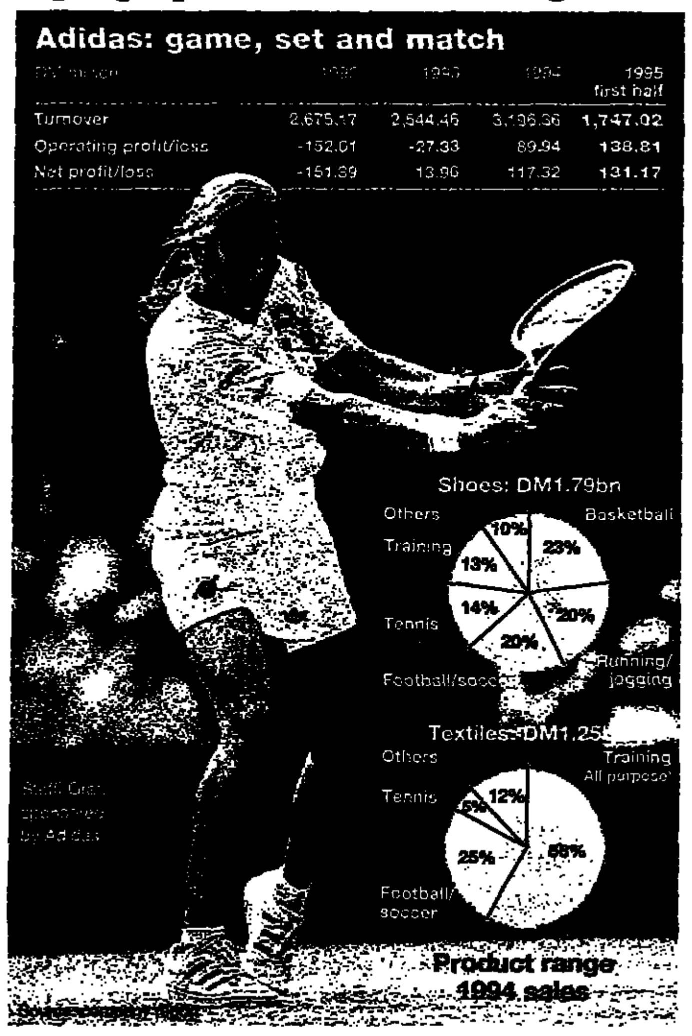
Postbank said with its new partners it would offer an array of financial services while the consortium led by Deutsche Post would merely use the Postbank shares as an investment.

Deutsche Bank, which will take a 20 per cent stake as part of the Deutsche Post bid, indicated that it would introduce services but later said it wanted merely to hold the Postbank shares ahead of a likely stock exchange listing in 1998.

German banks' results, Page 22

Adidas has been shaping up for its forthcoming float

Fitter, leaner and ready to win



Adidas, the German sports equipment maker, yesterday surprised financial markets by announcing an unexpectedly low share price range for its forthcoming flotation.

The shares will be offered at between DM59 and DM68, which is about DM10 less than had been widely expected. Based on brokers' forecasts of 1995 earnings, that would appear to put the shares on a prospective price/earnings ratio of between 11.3 and 13.1.

The pricing decision appears to confirm the rather conservative view taken by German bankers and investors about the prospects for large-scale flotations. A similar approach was taken in the recent share sale by E Merck, the German pharmaceuticals company.

The caution is understandable: Germany has little experience in large share offerings yet is preparing for the biggest flotation in European history – next year's share sale in Deutsche Telekom.

Based on yesterday's price range, Sogedim, the French investment company which owns Adidas, should raise between DM1.34bn and DM1.54bn ($960m-$1.1bn) for the 50.1 per cent of the company it is selling.

It plans to use the proceeds to repay debt incurred when the Sogedim investor group bought the company in 1993 from Mr Bernard Tapie, the French businessman and politician. Mr Tapie, under whose leadership Adidas' performance deteriorated sharply, received a jail sentence this year in connection with a football match-rigging scandal.

Founded by Mr Adi Dassler just after the second world war, Adidas presents a familiar story of a company that ran into trouble after the death of its patriarch (or in this case, after the death of the patriarch's son, Mr Horst Dassler, in 1987).

The late 1980s and early 1990s were marred by internal family feuds, a changed strategy and the catastrophic sale to Mr Tapie.

The flotation prospectus asserts that in the early 1990s the group changed from being an authentic sports goods maker to a follower of fashion, lost its leadership in product innovation and quality, failed to exploit marketing and kept manufacturing in high cost locations at a time when competitors had moved to low wage countries.

There has been a radical change since the arrival of Sogedim, which is headed by Mr Robert Louis-Dreyfus, a Frenchman who is also chairman of Adidas. He was formerly a leading executive at Saatchi & Saatchi, the UK advertising agency.

Adidas has gone back to a strong focus on technological innovations and quality, but with the added ingredient of aggressive advertising to compete with the sportswear market leaders – Nike and Reebok of the US.

The company has virtually abandoned Germany as a production base in favour of Asia, especially China, Indonesia and Thailand.

There has been a sharp improvement in financial performance and the company the yesterday announced a net profit of DM251m for the nine months to September 30, against DM141m in the same period of 1994.

Adidas is among a small number of German companies that benefit from the weakness of the dollar. Its dollar purchases outweigh its dollar sales, while the company receives more D-Marks than it spends.

The 1994 results were marginally improved by the low dollar, while in 1995 the boost has been more significant, especially since the spring.

The shares will be listed in Frankfurt, and possibly later in Paris. Adidas is starting an international roadshow aimed at institutional investors, and retail investors in Germany. The company has agreed to present its results according to international, rather than German, accounting standards. The shares will be traded from November 17.

Ms Margot Schoenen, analyst at WestCapital in Düsseldorf, said: "There can be no doubt that Adidas is a company with strong growth potential, a successful product range and marketing."

She said that the relatively low price may have been due to some "bad market sentiment ahead of the flotation, perhaps because in Germany we are not used to the notion of capital going straight to the owners, as opposed to being reinvested in the company". This view may have been nurtured by speculation that Sogedim may eventually reduce its involvement with Adidas.

Adidas' flotation occurs at a time of intense controversy over the tax affairs of Ms Steffi Graf, the tennis player who is sponsored by the company.

Adam Opel, the German subsidiary of General Motors, last week pulled out of a long-standing sponsoring relationship with Ms Graf but Mr Louis-Dreyfus yesterday underlined his continued commitment to the tennis player.

He said: "I've spent a whole day with Steffi Graf, questioning her, and I am convinced that she is not guilty. We have backed her for 12 years, and we don't leave people out in the cold, if the sea gets a little rough."

Wolfgang Münchau

ICI shares slip after chairman warns on demand

By Jenny Luesby in London

Imperial Chemical Industries yesterday reported improved year-on-year third-quarter underlying profits but a drop relative to the second quarter, which it blamed on the economic slowdown in Europe and the US, which had cut demand for chemical raw materials by 4 per cent.

Excluding exceptional charges, pre-tax profits were £248m ($392m), up from £131m a year ago, but down from £289m in the second quarter. The results hit ICI shares, which closed down 24p, at 779p.

Sir Ronald Hampel, chairman, forecast static demand for chemicals until at least the end of the year. The warning echoed gloomy forecasts in the past two days from Du Pont and Dow Chemical of the US.

All three highlighted destocking by manufacturers, suggesting that strong demand growth over the previous year was helped by a build-up in raw materials.

They said this extra buying, as a hedge against anticipated price rises, ended when chemical prices began falling in May, and manufacturers were now running down their stock levels.

ICI was protected in the third quarter from falling prices by its fixed contracts, but the decline in manufacturers' demand hit profits relative to the second quarter. The industrial chemicals division suffered most, with sales falling 10 per cent and operating profits 20 per cent.

The group's overall operating margins fell from 11.6 per cent to 9.9 per cent.

However, Sir Ronald was confident the world chemicals market would "resume growth after the current period of adjustment". Third-quarter sales had been affected by a "buying holiday" taken by China, the world's largest buyer of plastics and many other chemicals, as it tried to curb inflation.

However, since September, sales to China had resumed. There were signs that the destocking in the US was complete, he said.

Du Pont and Dow have forecast further declines in US demand for chemicals in the fourth quarter, a discrepancy which may be due to the companies' different chemical portfolios.

Either way, ICI said it would suffer further in the final quarter due to falling prices. Declining spot market prices have begun feeding through into its quarterly fixed price contracts.

"Third-quarter contracts did not reflect the price falls seen on the spot markets in the second quarter," said Mr Alan Spall, finance director. "But fourth-quarter petrochemical contract prices are down 8-10 per cent." But he said stronger prices for other products meant prices would not fall by 8 per cent overall. The group was also hopeful of renewed price and volume increases next year.

"The consumer has been late into this cycle," said Mr Spall.

"At the same time, the industry's capacity has only crept up, rather than jumped, which, presuming that slow growth continues, should prevent oversupply."

ICI results, Page 27;
Dow results, Page 22;
Lex, Page 20

Buoyant ABB posts 61% rise in third-quarter net income

By Ian Rodger in Zurich

ABB Asea Brown Boveri, the electrical engineering group, posted a 61.5 per cent rise in third-quarter net income to $197m, continuing the strong growth that began last year.

Mr Percy Barnevik, chief executive, indicated the group would again earn a disproportionate share of its annual profit in the fourth quarter, leading to another large rise in net income after last year's $760m.

Last year, ABB earned 42 per cent of its net income in the fourth quarter. "I am not going to give a forecast, but if the trend were much different, we would say something," Mr Barnevik said.

Revenues were up 15.2 per cent to $7.99bn in the third quarter, flattered by the weakness of the US dollar. Capital goods for industry, such as robots and process control systems, showed the strongest growth.

ABB predicted demand for industrial goods would continue to grow, "but at a slower rate". Mr Barnevik said the demand for cars and other consumer durable goods was slowing in Europe.

It was rushing to build up its industrial goods business in fast-growing Asian countries to take up the slack when the industrial goods cycle turned down in western Europe and the US. Power generation equipment sales and trading profits were flat.

New orders and revenues in the railway transportation division increased at the group average and trading profits improved, thanks to standardisation of products and cost cutting.

Mr Barnevik said the group had not decided what to do with the $900m it would be paid by Daimler-Benz of Germany following the establishment of ABB's 50/50 venture with Daimler's AEG railway equipment arm.

Total third-quarter trading profit was up 19.3 per cent to $635m. The trading margin advanced from 7.7 per cent to 7.9 per cent and Mr Barnevik said the group was on course to achieve its target 10 per cent margin next year.

Pre-tax profit in the third quarter was up 31.6 per cent to $350m. In the first nine months, orders rose 12 per cent to $25.3bn (4 per cent higher in local currencies) and revenues grew 16 per cent to $23.3bn, up 8 per cent in local currencies. Net income in the nine months was ahead 47 per cent at $651m.

EUROPEAN NEWS DIGEST

Minister supports Eni privatisation

Mr Rainer Masera, Italy's budget minister, yesterday sought to reinforce the Italian government's commitment to the partial privatisation of Eni, the state-owned energy and chemicals group, around the end of next month. Italian ministers met again yesterday with officials at the Italian treasury – which owns all Eni's shares – and advisers to the flotation to discuss the issue's pricing. An announcement could be made in the next few days, with analysts suggesting a range of between L4,000 and L6,500 a share, based on the flotation earlier this year of Repsol, the Spanish oil company, whose shares were priced at 10 times its earnings.

There were concerns ahead of yesterday's debate on the motion of no confidence in the government, that political instability might upset the timetable for the share issue.

But in a declaration ahead of the vote, Mr Masera said the government had to "respect the commitments undertaken and bring Eni to the market in the first days of December". He said the flotation should take place "irrespective of the outcome of the parliamentary vote".

According to the draft prospectus for the issue, Eni intends to distribute 40 per cent of its 1995 net consolidated profit in *dividends, Italian news agencies reported.* Eni refused to confirm the figures. Earlier this year, Eni, which has undergone drastic restructuring in the last few years, paid its first dividend to the treasury for 23 years – L117 a share, or 29 per cent of net profit.

It is still unclear how much of Eni could be floated off. The most optimistic forecasts suggest a tranche of 20 per cent could be sold, but the continuing volatility of the political situation would give investors ample reason to press for a lower price, and that may encourage the treasury to place a smaller first tranche. *Andrew Hill*

Munich Re details issue plans

Munich Re, the world's largest reinsurance company, yesterday announced plans to raise DM580m ($416m) through a one-for-11 rights issue at a deep discount to the current share price. Munich Re said the issue would take place between November 22 and December 15 through a banking syndicate led by Dresdner Bank. The issue was being made to increase the company's financial strength and to enhance shareholders' return on investment. The new shares' *subscription price of DM800 each represents a discount of* 74 per cent on yesterday's share price of DM3,030.

The company said net profits for the year to June 30 1995 totalled DM102m, against DM91m, out of which it would pay a higher dividend – already announced – of DM13.50 a share against DM12 in 1993-94. It has transferred DM798m (compared with DM523m last year) to its provisions for claims equalisation and big risks, and DM250m (against DM350m) to provisions for outstanding claims.

The new shares to be issued would be entitled to dividends from July 1 retroactively. The rights issue would increase *shareholders' funds to more than DM3.1bn.*

Andrew Fisher, Frankfurt

French bank sell-off begins

The French government yesterday announced the opening of the privatisation process for Société Marseillaise de Crédit, the state-owned banking group. The ministry of economics said it had paid FFr1.06bn ($216m) in cash, in line with its pledge in March to recapitalise the bank ahead of the sell-off. The money, which was approved by the French National Assembly earlier this month, comes on top of an earlier recapitalisation last year, bringing total state support to FFr1.386bn.

Marseillaise de Crédit recently announced a restructuring to clean its balance sheet and impose tighter management controls. The bank had total assets of FFr26.8bn at the end of 1994. In the first half this year, it reported banking revenues unchanged and profits of FFr3m against a loss of FFr264m a year earlier.

The government also announced yesterday that Mr Jean Matouk, the chairman, would be replaced "very soon" ahead of the privatisation. It praised him for his effectiveness while in charge. The state is expected to appoint an investment bank shortly to advise on the privatisation and said it would be launching an invitation for tenders. *Andrew Jack, Paris*

Autoliv shares tumble on results

Shares in Autoliv, Europe's biggest supplier of car safety equipment, fell 5.3 per cent to SKr356 yesterday after the group reported slower third-quarter growth and a lower-than-expected nine-month profit of SKr758m ($115m).

The nine-month figure was 64 per cent higher than 1994's SKr463m, but third-quarter profits rose only 20 per cent from SKr192m to SKr231m. *Christopher Brown-Humes, Stockholm*

Commerzbank promises higher payout as profits surge

By Andrew Fisher in Frankfurt

Commerzbank, which is about to raise DM1bn ($718m) from an international share placing, continued its steep profits rise in the first nine months and said it expected a good result for the full year.

Operating profits more than doubled to DM1.22bn, reflecting the absence of last year's bond portfolio write-downs and higher trading profits.

Income from basic loan and commission business rose only slightly, showing bank margins were still under pressure, analysts said.

Mr Martin Kohlhaussen, *the* German bank's chairman, promised shareholders a higher dividend, saying: "We are very confident about 1995."

The dividend would be higher than last year's DM12, but he did not say whether it would exceed the total distribution of DM13.50, which included a *DM1.50* bonus for the bank's 125th anniversary.

Despite the profits climb, some analysts were disappointed and the shares eased *DM2.10 to DM323.*

"We would have liked a bit more of a pick-up," said Mr *Chris Williams, banking* analyst at Fox-Pitt Kelton, the UK stockbrokers. "It's a pity the high asset growth has not generated more growth in net *interest income."*

Total assets were 8.4 per cent higher at DM371bn, while interest income edged up 1.7 per cent to DM3.87bn.

Profits before tax were 5 per cent lower at DM1.12bn because the corresponding 1994 period included DM616m from the sale of shareholdings in *Karstadt stores and DBV* insurance. The bank had also spent DM96m on its anniversary.

Mr Kohlhaussen said the bank was still looking for further acquisitions to develop its activities in New York, London and Singapore.

The most likely candidate would be a medium-sized investment bank in a specialised field. It was too early to say more – "a chicken does not cluck until the egg is laid". In July, the bank lost out to Merrill Lynch of the US in the bidding for Smith New Court, the UK stockbroking firm.

He said the capital increase, with terms to be fixed on November 16 after the book-building period, would take place at the stock market price, although the annual meeting had authorised a discount of up to 5 per cent. However, some analysts said the new shares – to be placed with German and foreign investors – would need a discount to make them attractive internationally.

Elaborating on the results, Mr Kohlhaussen said credit risk provisions were 51 per cent lower at DM562m because the improvement in bond markets had removed the need for securities write-downs. But provisions for bad company loans had not been reduced. Financial trading profits, hit last year by the bond market collapse, rose 375 per cent to DM361m.

The average interest margin was down to 1.47 per cent from 1.76 per cent, reflecting a shift to long-term loans and the consolidation of Hypothekenbank in *Essen, a mortgage bank.* Net commission income was 2.2 per cent higher at DM1.42bn, helped by improved stock exchange business.

Deutsche Bank 16% rise disappoints

By Andrew Fisher

Deutsche Bank, Germany's largest bank, managed only a small rise in operating profits in the first nine months, but showed a more marked improvement after tax with net income 16.4 per cent higher at DM1.35bn ($968m).

Analysts were disappointed with the results, and the shares closed DM1.01 lower at DM63.57.

The bank is the first in Germany to give net income for results other than those for the full year, saying this is in line with international practice. On the usual operating profits measure (after risk provisions but before tax and extraordinary items), it showed an increase of 2.6 per cent to DM3.23bn.

The bank said it expected the positive trend to continue in the fourth quarter. This would *yield earnings per share of* DM3.60 against DM3.30 in 1994. Pre-tax profits for January-September were 16.3 per cent lower at DM2.47bn, weighed down by DM754m of charges which were mostly due to write-downs on leasing business.

However, the tax bill was 37 per cent lower, partly reflecting the delayed use of tax loss allowances on loans to the failed Schneider property empire.

Deutsche Bank also gave a quarterly earnings comparison for the first time. Net income for the third quarter rose quar*ter on quarter* by 102 per cent to DM366m and operating profits by 66 per cent to DM807m.

Net interest income was 5 per cent lower at DM8.18bn, with net commission income down 6 per cent at DM4.2bn. This was against a 15 per cent rise in total assets to DM658bn.

"The margin squeeze has continued unabated in German banking," said Mr Stephen Lewis, London-based analyst at Union Bank of Switzerland.

In spite of the rise in operating and net profit figures, he added, "the underlying operating picture has not improved since the six-month stage in absolute terms". The renewed profits growth over nine months – operating profits at the half-way stage were 9 per cent lower at DM2.42bn – reflects the fact that the first half comparison was with a better trading period before the bond market collapse hit performance.

Hilmar Kopper: heads Germany's largest bank

Linde looking to spend DM2bn on new business

By Wolfgang Münchau in Frankfurt

Linde, the German industrial group, is preparing to make an acquisition possibly worth more than than DM2bn ($1.4bn), according to senior management.

Following a period of consolidation after an aggressive acquisition spree in the 1980s, Linde is looking for a business that is "complementary and stabilising", although no decision has yet been made about a *specific* business area, or a target company.

A purchase in the large-scale plant construction business is a possibility, but the company may alternatively establish a fifth business division, alongside fork-lift trucks – an area in which it is the world market leader – industrial gases, refrigeration systems and plant construction.

The fork-lift truck business is not earmarked for expansion through acquisition at this stage. Linde established a sizeable European fork-lift network through acquisitions in France, Italy and the UK, although the company has a relatively small exposure in the US. Several years ago, Linde considered further expansion in the US, but no large US-based fork-lift truck makers are believed to be for sale at present.

Linde yesterday detailed the financial results for the nine months to end-September, showing a steady upward path in sales and orders. Turnover rose 3.8 per cent to DM5.97bn, and incoming orders increased 8.1 per cent to DM6.32bn.

Mr Hans Meinhardt, chairman, predicted strong profit increases for 1995 and 1996, adding that this would be reflected by an increase in the 1996 dividend.

He said European growth outside Germany had been better than expected, while the domestic business had suffered a squeeze in demand conditions.

"Especially in Germany, we noted a significant decrease of economic growth. *The most* important pillars of the domestic economy continued *to* be the export and new equipment industries. The original growth expectation suffered significantly because of the unexpectedly strong appreciation of the D-Mark in the spring," he said.

Reflecting a growing unease among German industrialists, Mr Meinhardt criticised the government over a plan to raise pension contribution levels from 18.6 per cent to more than 19 per cent.

Under German law, pension contributions are shared *equally between employers and* employees, and constitute a significant wage cost factor. "These additional burdens on employees and companies are damaging for the German economy," he said.

RWE raises its dividend after climbing 18% for year

By Judy Dempsey in Essen

RWE, Germany's largest utility group, will raise its dividend by DM1 to DM14 after posting a rise of 18 per cent in net profit and a 14.1 per cent increase in sales, Mr *Dieter Kuhnt,* chairman, said yesterday.

The rise in sales was boosted by the first-time consolidation of its three east German electricity companies and Laubag, the region's brown coal fields.

Group profits rose by DM164m, from DM922m to DM1.08bn ($775m), in the business year ending July 1, while sales rose DM7.9bn, from DM55.7bn to DM63.6bn.

"Actual results have even surpassed our forecasts," said Mr Kuhnt. Earnings per share rose sharply from DM22.70 to DM26.80 and analysts said the increase reflected strong growth in all six divisions.

Sales in the energy division, which account for 30 per cent of total turnover, rose from DM18.8bn to DM21.5bn. They are expected to rise even further next year when RWE reduces domestic and industrial prices following the lifting of the Kohlepfennig – the 8.5 per cent surcharge imposed on electricity consumers to subsidise domestic coal production.

In the mining division, sales increased from DM2.3bn to DM4.9bn, the first rise since 1993. RWE posted profits of DM100m at Consul, its US hard-coal subsidiary in which its holds a 50 per cent stake.

Laubag made a small profit of DM30m, but said brown coal sales in east Germany would come under increasing pressure as more households and industry switched to gas.

Sales in the petrochemical and chemicals division also increased, from DM22.7bn to DM23.7bn.

The acquisition of a 70 per cent stake by RWE in Eni-Chem Augusta, the Italian chemicals company, is expected to lift sales next year.

The company's weakest division – waste management – continued to make losses, largely because of American Nukem, RWE's US subsidiary.

Mr Kuhnt said more incineration facilities were being built in the US, even though the amount of waste being produced had remained constant.

Losses in the division amounted to DM83bn, DM110m lower than in the previous year.

Profits in the mechanical and plant engineering division, which rose from DM86m to DM237m, were helped by a strong upturn in the printing press sector.

However, Mr Kuhnt said continuing high labour costs in Germany might force RWE to set up production in non-European countries.

He said SGB, its electrical plant engineering group, was building a transformer factory in Malaysia to meet local demand.

Olivetti confident of ending PC losses

By Andrew Hill in Ivrea

Mr Carlo De Benedetti, chairman of Olivetti, admitted *yesterday that if the Italian* group's loss-making personal computers company had not met efficiency targets by the end of 1996, the group would have to consider abandoning the PC market.

But Mr De Benedetti told shareholders he was convinced the latest restructuring plan would succeed in ending losses at the PC operation.

"Either we reach [those targets] or we leave this sector, but that would have very serious consequences for the company," he said.

Shareholders, meeting at Olivetti's headquarters in Ivrea, north of Turin, backed the group's proposal for a record L2,257bn ($1.39bn) rights issue aimed at reviving and relaunching the company, and accelerating its transformation into an information technology and communications group.

The rights issue, underwritten by a consortium of banks, will open between November 16 and the end of December.

Shareholders heard Mr De Benedetti admit to "dissatisfaction" that the company had failed so far to turn the PC division round.

He said he would be the guarantor of the success of the restructuring plan, which would also involve a further 5,000 job cuts across the group, 2,000 of them in Italy. He said he and the rest of Olivetti management would consider it a "defeat" if the latest plan failed, but he stopped short of any promise to step down if its objectives were not achieved.

The plan's aims are to relaunch the computer business, which will become part of a separate company; reduce operating costs; complete industrial rationalisation; and speed up telecommunications investments, through joint ventures and the Omnitel Pronto Italia mobile phone company, in which Olivetti is the largest shareholder.

No large shareholders voiced objections to the plan yesterday. Olivetti workers staged a peaceful demonstration against the proposals outside the meeting, and the Bishop of Ivrea warned during the assembly that the job cuts risked upsetting relations between Olivetti, its workers and the city.

Mr De Benedetti told share*holders* that at September 30, group turnover was up 14.7 per cent on the first nine months of 1994. He forecast annual turnover of L10,000bn against L9,076bn in 1994, when Olivetti lost L679bn after extraordinary charges. The 1995 result would be better than 1994, but still nega*tive, he confirmed.*

Observer, Page 19

L'Oréal ahead 5.5% after six months

By Andrew Jack in Paris

L'Oréal, the French cosmetics group, yesterday reported profits ahead 5.5 per cent to FFr2.75bn ($571m) for the first six months of 1995.

Consolidated sales were up 22.8 per cent to *FFr26.95*bn, representing an increase on comparable terms of 6.9 per cent.

The group said there was a 20.6 per cent increase in sales arising from changes in its corporate structure, including the consolidation of four new subsidiaries in October last year.

It said there was also a negative exchange difference of 4.7 per cent.

L'Oréal said the results included figures from its North American subsidiaries, which it said were subject to seasonal trends and would be higher in the second half of the year.

The group predicted that consolidated sales for the full 1995 year would be up by 12 per cent at current exchange rates, with pre-tax profits rising by about the same amount.

It said tax charges would be slightly higher as a result of changes to the French tax system and the higher taxes charged on the new companies it is consolidating.

It said consolidated sales for the first nine months of the year rose 15.3 per cent to FFr39.7bn, or 6 per cent on a comparable basis.

Increased demand lifts Endesa to Pta108.1bn

By David White in Madrid

Increased demand for electricity helped Endesa, the state-controlled Spanish utility, increase consolidated net profits for the first nine months of the year by almost 13 per cent from *Pta95.8bn to Pta108.1bn* ($892m).

Group turnover rose 9 per cent to Pta653.2bn in the nine-month period , even though average price increases were only 1.5 per cent.

The growth was helped by an increase in demand of almost 4 per cent, reflecting Spain's economic recovery, and the addition of new generating capacity under a series of assets transfers in the country's electricity industry.

Installed capacity was up 12 per cent on the same period last year.

Already the dominant generator in Spain, Endesa raised production by more than 14 per cent. Together with its associate companies, Sevillana de Electricidad in the south of Spain and the Catalonia-based Fecsa, in which it is the leading shareholder, it accounted for almost 54 per cent of total national production.

Endesa said its subsidiaries and affiliates provided the bulk of the profit increase, with parent company earnings rising a more modest 4.5 per cent.

Group operating costs were almost 10 per cent up at Pta451.5bn. Outstanding debts at the end of September were 1 per cent lower at Pta624.4bn.

Mitsubishi Estate sells Tokyo block

By William Dawkins in Tokyo

Mitsubishi, Japan's leading property company, is to sell an office block in central Tokyo for Y75.6bn ($746.3m), in the city's first significant open market property sale in more than a decade.

Property analysts welcomed the deal as helping to put a stable, market-related floor under Tokyo property prices, which have fallen 60 per cent since their early-1990 peak.

This could reinforce the shaky value of Japanese banks' and industrial companies' vast commercial property portfolios.

Mr Bernard Siman, senior analyst at UBS Securities, said this "seems to indicate . . . that the bottom has been reached. This realisation is important for confidence in the asset prices of the major companies that own prime property".

The buyer is Corporation, one of Japan's top five trading companies. Most of the few buyers of large Tokyo commercial properties in recent years have been subsidiaries or close associates of the seller, acting under orders not to push prices down too fast.

Far from being connected, Marubeni and Mitsubishi belong to fiercely competing *keiretsu* – corporate families.

The property, a modest 16-storey block in the Otemachi business district, built 23 years ago, is Marubeni's headquarters. Marubeni calculated it would be more *economical to* own the building than continue paying rent of Y5.6bn a year. Mitsubishi will use its estimated Y60bn profit from the sale to offset some of the more than $2bn loss from its decision last month to give up ownership of the New York Rockefeller Center.

The purchase price values the land at Y10.56m a square metre, down 67 per cent from an official local authority valuation of Y32m a square metre at the peak of the boom in property prices five years ago, according to Mr Mark Brown, senior analyst at Barclays de Zoete Wedd in Tokyo.

"The Mitsubishi sale gives us a limited benchmark for property prices of between 50 per cent and 70 per cent of their peak. It does suggest that a *deal* can be done at this level," he said.

The most recent property transaction of any size, in June, *showed an even steeper* price drop, although it was a special case. That was when Chiyoda Mutual Life Insurance sold a burnt-out hotel on a choice site near the parliament building to one of its own affiliates, for Y59.76bn, one-fifth the Y300bn at which the land was valued in 1989.

The Hotel New Japan was gutted by fire 13 years ago, with the loss of 33 lives, and the blackened shell has stood empty ever since. Chiyoda, the main creditor of the bankrupt hotel company, had tried to auction the building twice, but no bidders emerged.

Before that, the biggest arms-length property sale in Tokyo is believed to date back to 1983, when the Japan Light Metal Association bought a Ginza office block for Y25bn.

Correction

Maurice Dwek

A photograph in yesterday's Swiss Banking survey was that of Mr Maurice Dwek, chairman of Seaforth Investments, and not of Mr Maurice Dwek, founder of Soditic. We regret the error.

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Growth in core businesses lifts Sandoz sales 3.1%

By Ian Rodger in Zurich

Sandoz, the Swiss pharmaceuticals and chemicals group, achieved underlying sales growth of 3.1 per cent to SFr3.2bn ($2.81m) in the third quarter, because of continuing strong growth in its core pharmaceuticals and nutrition businesses.

The figures exclude the sales of the industrial chemical division, which became an independent company, Clariant, on July 1.

Sandoz said it expected a "marked increase" in net income in the full year, as sales growth would continue in the fourth quarter and margins improved as a result of cost cutting. In 1994, Sandoz had net income of SFr1.7bn.

The group's sales growth in the third quarter slowed from the 6 per cent rate achieved in the first half, mainly because the first-time effect of the acquisition of Gerber, the US baby foods group, dropped out from August 25. Sales trends in the seeds and agricultural chemical divisions also deteriorated in the third quarter.

Pharmaceuticals division sales were down 1.1 per cent to SFr1.78bn, reflecting the impact of the strong Swiss franc on foreign sales. In the first half, they were down 2 per cent.

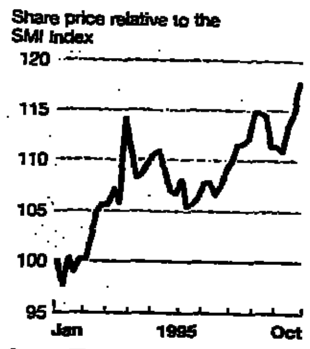
Sandoz said the lipid-lowering agent Lescol, introduced in several markets last year, had already become one of its biggest selling drugs.

Nutrition sales were up 24.6 per cent to SFr896m in the quarter, a significantly lower growth rate than the 63 per cent achieved in the first half. Excluding Gerber, nutrition sales were up 7 per cent in local currencies in the first nine months.

Mr Raymund Breu, finance director, said synergies between Sandoz and Gerber were beginning to be strongly felt. Gerber is selling Sandoz's ReSource oral food supplement for elderly and convalescent people in the US and Sandoz has helped boost Gerber baby food sales outside the US.

Sandoz

Share price relative to the SMI Index



Source: FT Extel

Sandoz: nine-month sales by division

Division	1995 SFr	1994 SFr	% change	% change in local currencies
Pharmaceuticals	5,284	5,379	-2	+8
Nutrition	2,766	1,868	+48	+67
Seeds	734	819	-10	+1
Agrichemicals	1,085	1,131	-4	+7
Construction	886	931	-5	+4
Total (excluding industrial chemicals)	10,755	10,128	+6	+16
Industrial chemicals	1,136	1,757		
Total	11,891	11,885		

Note - The industrial chemicals division was demerged on June 30, 1995. Source: Sandoz

Advance bolstered by Borealis petrochemicals joint venture with Neste of Finland

Statoil ahead at NKr4.5bn after nine months

By Christopher Brown-Humes in Stockholm

Statoil, the Norwegian state oil company which is bidding for Aran Energy of Ireland, yesterday reported net profits of NKr4.5bn ($729.4m) for the first nine months, an 18 per cent jump from NKr3.8bn a year earlier.

The directors said the improved result reflected a strong contribution from Borealis, the group's petrochemicals joint venture with Neste of Finland.

However, pre-tax profits fell from NKr12.9bn to NKr12.4bn after being hit by lower average oil prices, reduced oil production and weak refining margins.

The group is heavily taxed on oil production, but its land-based activities, including Borealis, incur less tax.

Statoil's £200m ($316m) bid for Aran looks certain to succeed after rival bidder, Atlantic Richfield of the US, decided not to raise its £182m bid.

Aran's board has recommended the Statoil offer. It would be the first time the Norwegian group has grown through acquisition.

Group operating profits rose from NKr10.8bn to NKr11bn. Average oil prices for the period fell from NKr114 a barrel to NKr108. Average production dropped from 442,000 barrels a day to 415,000 during the period. But lower exploration costs helped the group increase exploration and production operating profits from NKr9.3bn to NKr9.7bn.

Petrochemicals, which includes the 50 per cent Borealis stake, produced an operating profit of NKr1.2bn, after losses of NKr27m last year. The turnround reflects much higher prices and margins for Borealis products.

However, operating profits for refining and marketing fell from NKr1.2bn to NKr102m. The company blamed "persistently low refining margins and weak results from trading crude oil and products" for the setback.

Statoil said its crude oil supplies should increase in the fourth quarter, due to the start of production in the Troll and Heidrun fields in the Norwegian North Sea. It also expects an improvement in its refining results following the start-up of a new Danish condensate refinery.

Argentaria's Pta82bn profit beats expectations

By Tom Burns in Madrid

Argentaria, the partially privatised Spanish banking group at the centre of recent speculation over a possible takeover, continued to inch its way out of loss, posting pre-tax profits of Pta82.4bn ($679m) for the first nine months, 2.7 per cent down on the same period of last year.

The results were marginally ahead of market expectations, but the shares closed down Pta40 at Pta4,430.

The banking group's slow return to profitability began at the beginning of the year after a disappointing income statement at the end of 1994. Pre-tax profits during the first quarter fell by 7.7 per cent, and by 3.5 per cent over the six months.

The net attributable group profit for the nine months stood at Pta55.8bn, 3.2 per cent down. At the six-month stage Argentaria's attributable profit fell 5.6 per cent.

Argentaria, which is the third largest domestic banking group in terms of assets and market capitalisation, is 51 per cent state-owned. Foreign institutions own just over 20 per cent.

Earlier this week Banco Bilbao Vizcaya, the second-ranked Spanish bank, denied that it had made an approach to take control of Argentaria through a further sell-off of state-owned equity.

The bank's gradual recovery was underlined by an operating profit of Pta64.5bn. Year on year, this was 6.2 per cent down, but it was 19 and 25 per cent higher than the six-month and three-month figures respectively.

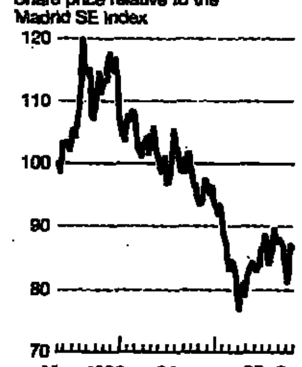
The first nine months also showed a continued improvement in the bank's loan portfolio. Bad and doubtful debts fell 26.2 per cent. The ratio of non-performing loans fell 4.2 per cent from 5.8 per cent a year ago and to a level comfortably below the financial sector's average of 7.7 per cent.

However, net interest income continued to drop, falling 9.9 per cent against the third quarter of last year to Pta153bn. Fee income was also under pressure, down 21 per cent at Pta30bn, because of lower commissions from unit trust management and reduced income from investment securities.

Mr Pedro Solbes, the economy and finance minister, said this week the government would sell a further 25 per cent of its stake next year. But he said he opposed a merger with another bank and that the stake would be offered to small investors to prevent potential takeovers.

Argentaria

Share price relative to the Madrid SE Index



Source: FT Extel

Bikuben, Girobank merger to proceed

By Hilary Barnes in Copenhagen

The boards of Bikuben, flagship of the Danish savings bank movement, and Girobank, in which the state holds a controlling majority, yesterday announced they had completed negotiations for a merger.

The deal will create the country's third-largest bank with assets of about DKr160bn ($29.5bn).

At the same time, the two banks, the insurance company Topdanmark and mortgage credit group Nykredit announced they had agreed to establish a closer business relationship supported by cross-holdings of shares in each other.

Bikuben has an extensive private customer base through a national branch network, while Girobank is a specialist in payments services.

Yesterday's statement from the two banks said the new bank would present a real alternative to Den Danske Bank and Unibank, the two banks which dominate the Danish market.

Through the combination of Bikuben's distribution service and Girobank's payments service, the new bank would, in particular, be an attractive option for small and medium-sized corporate customers, the banks claimed.

The new bank, which will retain the Bikuben name, will have about 6,400 employees when it starts operations at the beginning of next year. But the banks said they expected to reduce staffing by about 15 per cent over the following two years, mainly by natural wastage.

The merger terms will be a one-for-one share exchange. In addition a cash payment will be made by Girobank on the basis of the adjusted net value of the two banks, but the amount will first be fixed when the accounts as of September 30 have been completed.

Nykredit holds 15 per cent of Bikuben and expects to maintain its holding at this level in the new bank. Nykredit will acquire 10 per cent of Topdanmark; Topdanmark will acquire 10 per cent of Bikuben; and Bikuben will acquire 10 per cent of Topdanmark.

Mr Henrik Thufason, currently chief executive of Bikuben, will be chief executive of the new bank, with Girobank's chief executive, Mr Bjarne Wind, as his deputy.

The co-operation between Bikuben, Topdanmark and Nykredit will be used to exploit the three companies' sales forces by selling Topdanmark accident insurance policies through Bikuben branches and Nykredit estate agents.

Bikuben and Topdanmark will co-operate in selling life assurance and pension products, while Nykredit can provide mortgage loans through the bank's branch network.

German retailer sees listing next year

By Judy Dempsey in Düsseldorf

Metro Handels Holding, Germany's newly-formed retailing group, expects to be listed on the Frankfurt stock exchange next year following the merger of its German-based department stores and cash and carry outlets under one new holding company, Mr Erwin Conradi, Metro chairman, said yesterday.

Metro Handels Holding, the world's third largest retailing group, expects profits to rise DM400m ($287m) a year as a result of the merger. Last year's pre-merger sales at the Swiss-owned Metro group amounted to DM74.5bn. Profits were not made public.

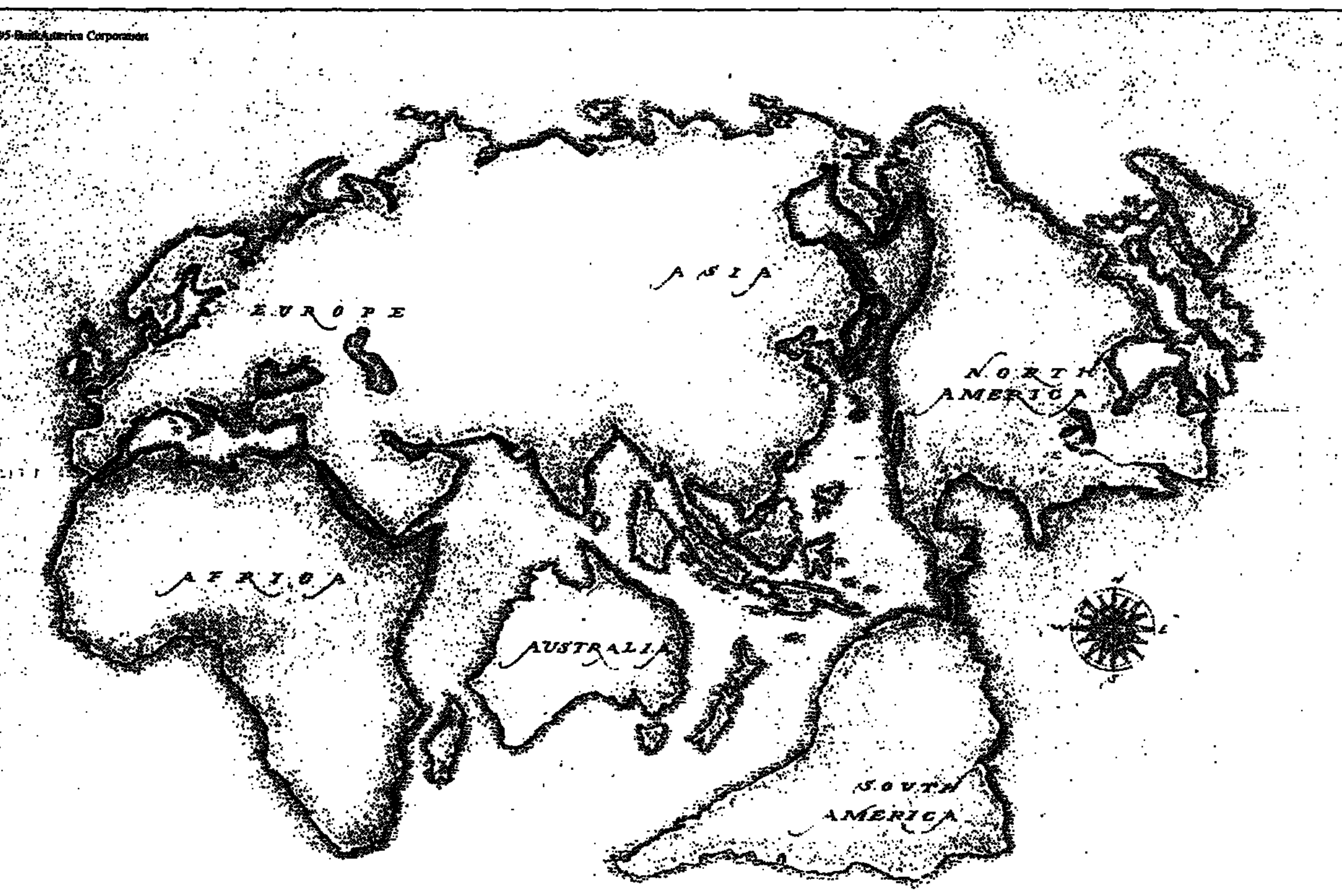
The merger puts Kaufhof's 412 department stores, Asko's diverse group of retailing outlets, and Metro's cash-and-carry division under one roof in a bid to rationalise the group and streamline management. Kaufhof sales last year were DM27bn but profits tumbled 43 per cent to DM137m from DM238m a year earlier. Asko profits fell 16 per cent, from DM432m to DM361m.

Mr Conradi would not say now much the merger would cost. But he said Metro Group would invest DM3.5bn-DM5bn a year to improve the logistics infrastructure.

Metro Handels Holding this year would have a turnover of DM63bn, said Mr Conradi. He expected net profits to account for between 3 and 5 per cent of turnover once the group was restructured. In addition, Metro's foreign sales would contribute an additional DM15bn to turnover as it sought to expand in China, India, eastern Europe and Mexico.

The merger coincides with the first optimistic forecasts for a rise in German consumer spending after three years of virtual stagnation as a result of higher taxes and other surcharges.

According to a report issued earlier this week by Germany's six main economic institutes, consumer demand this year is expected to grow 1.5 per cent compared with growth of 0.9 per cent in 1994. It will rise sharply next year to 3 per cent following the introduction of higher income tax thresholds for the less well off.



INTERNATIONAL COMPANIES AND FINANCE

ASIA-PACIFIC NEWS DIGEST

Honda sees lift from recreational vehicles

Honda, the Japanese car manufacturer, expects its new range of recreational vehicles to boost domestic sales, in spite of a near-stagnant overall market forecast for next year. Honda's Japanese sales are expected to rise 10 per cent to about 620,000 units this year on the back of the runaway success of its Odyssey multipurpose vehicle, known as the Shuttle in Europe.

The Odyssey has capitalised on the strong growth in recreational vehicles (RVs), which account for about 30 per cent of new car sales in Japan. Honda is confident growth next year will be reinforced by the introduction of up to three new RVs exhibited at this week's Tokyo Motor Show. The range includes the S-MX and the F-MX, two small multipurpose vehicles. Although shown only as concept cars, both are expected to go into production.

Honda also reported buoyant orders for its CR-V four-wheel drive vehicle, launched in mid-October. Sales should reach 18,000 units by the end of the month, compared with a target of 3,000. However, the startling debut for the CR-V, eclipsing even the Odyssey's early success, has posed a dilemma. Honda must decide to what extent it should increase CR-V production at its Suzuka plant.

The company appears undecided, partly because of uncertainty about whether the surge in the popularity of RVs is just a passing fashion or here to stay. The decision, which is not likely until early next month, will be an important indicator of Honda's belief in the future of the RV market. Although there are no plans to export the CR-V, executives say the encouraging domestic reception means foreign sales may be considered soon. The CR-V has plugged an important gap in Honda's range, which had become increasingly apparent after the success of competing lightweight four-wheel drive vehicles such as Toyota's Rav-4. *Haig Simonian, Tokyo*

Fanuc surges but issues warning

Fanuc, the world's leading maker of numerical controls for machine tools, yesterday reported an 86.4 per cent rise in first-half profits, but warned of a slowdown in the current six months.

Strong growth in export markets were the main feature in the rise in recurring profits – before tax and extraordinary items – to Y24.6bn ($242.8m) in the six months to September, from Y13.2bn a year earlier. Sales rose 42.5 per cent to Y76.9bn, the first rise in five years.

Fanuc admitted that export profit margins abroad had suffered from the yen's strength, but said this was more than compensated for by strong demand in the US, Europe and Taiwan. Overall, recurring profit margins widened from 24 per cent to 32 per cent. Business, however, was harder in the current half, because of weaker demand in the US and the continued sluggishness of Japanese purchases of industrial machinery. Just under 60 per cent of Fanuc's sales are in Japan.

On that basis, Fanuc expects recurring profits in the full year to next March to rise 26 per cent to Y44bn, on sales up 20 per cent at Y150bn. The annual dividend will be an unchanged a Y20 per share. *William Dawkins, Tokyo*

Pacific Dunlop sells three units

Pacific Dunlop, the Australian industrial group, has continued its divestment programme, yesterday announcing the sale of three plastics divisions for a total of A$107m (US$80m). The company sold its Plastics Group to Marley New Zealand, a division of Marley of the UK. RMAX, which produces polystyrene products, has been sold to the US-controlled Huntsman Chemical group. Earlier this year, Dunlop Flow Technology, which distributes rubber and plastic hose, was sold to Skellerup of New Zealand. *Bruce Jacques, Sydney*

Setback for Placer Pacific

Placer Pacific, the Australian gold mining company that is 76 per cent owned by Placer Dome of Canada, yesterday reported a 28 per cent decline in after-tax profit to A$46.0m (US$30.4m) for the nine months to September 30. Sales slipped 4.6 per cent to A$356.2m from a year ago.

Placer Pacific said its share of gold production from mines in Australia and Papua New Guinea fell 2.2 per cent to 563,617 oz in the period. In the third quarter, net profit declined 25 per cent from A$22.4m a year ago to A$16.7m. "The lower profit and sales revenue resulted from lower gold production, higher costs and increased exploration expense, partially offset by lower depreciation," Placer Pacific said. *AP-DJ, Sydney*

High prices hurt San Miguel

San Miguel, the Philippine food, beer and packaging conglomerate, yesterday posted a sluggish 13 per cent increase in recurring net profit for the nine months to end-September. The figure of 3.69bn pesos ($142m) compared with 3.26bn pesos at the same stage last year.

The company said its financial performance was weighed down by high prices of main raw materials. *AP-DJ, Manila*

Japanese electronics makers rise sharply at midterm

By Michiyo Nakamoto in Tokyo

Five of Japan's leading electronics manufacturers reported strong rises in parent profits in the first half, and predicted that full-year sales would reach record levels on buoyant demand for components and information and communications equipment.

The groups were helped by a surge in demand for semiconductors and other electronic devices, PCs, cellular phones and telecommunications equipment, both at home and abroad.

Growth in sales of these products, amid a generally sluggish economic environment in Japan, led the five companies to report double-digit growth in non-consolidated recurring profits in the six months to September 30.

Toshiba forecast record sales in the full year of Y3,570bn ($35.2bn) for the parent company, compared with Y3,325bn a year earlier. Hitachi expects sales this year at Y4,000bn to exceed its previous record of Y3,925bn.

NEC also expects record sales and has revised upwards its forecast for consolidated results. The company expects full-year consolidated sales to reach Y4,300bn, compared with a previously forecast Y4,250bn, and pre-tax profits to total Y135bn against a previous forecast of Y100bn.

Mitsubishi Electric forecast that revenue in its semiconductor division would reach Y540bn in the year rather than its earlier estimate of Y500bn.

NEC, Japan's largest semiconductor manufacturer, reported the strongest growth in first-half profits, with a 51 per cent climb from Y20.3bn to Y30.5bn.

The electronics division reported the largest sales increase at NEC, with a 26 per cent rise in the first half.

The Japanese electrical companies are leading manufacturers of memory chips, which are enjoying wide demand, while logic chips have seen strong sales on the back of buoyant growth in Japan of cellular phones.

Toshiba, for example, said it expected record semiconductor sales this year of Y970bn, up 14 per cent from the previous year.

Among electronic devices, liquid crystal displays, used for notebook PCs and portable TV screens, suffered from price falls as competition intensified. As a result, Sharp, which is the leading LCD maker, saw a slight decline in sales for its electronic components division.

Sales of PCs were strong, although fierce price competition meant that an increase in unit sales was not fully reflected in value terms.

For NEC, which continues to have the largest market share in Japan, PC and other computer sales were up only 3 per cent in value terms.

Demand was strong for telecommunications equipment, from cellular phones to network systems. Toshiba expects full-year sales in this sector to rise almost 9 per cent.

Sales of audio-visual products, however, were hurt by price falls and a shift in consumer demand to PCs and cellular phones. "Nobody is making that much money in consumer electronics," said Mr Eric Gan, industry analyst at Goldman Sachs in Tokyo.

Continuing strong demand for electronic products and a favourable exchange rate are expected to support further gains by Japan's electronics makers for the rest of the year.

"I think we can expect a surprise on the upside," Mr Makio Inui, industry analyst at Kleinwort Benson in Tokyo, said.

Japan's leading electrical companies: interim results (Y bn)

Company		Sales	Recurring profit*	Net profit
Hitachi	1995-96	1,998.3	54.9	37.9
	1994-95	1,872.9	43.0	26.2
	Change (%)	+6.7	+27.6	+44.5
Mitsubishi	1995-96	1,253.4	37.4	18.8
	1994-95	1,165.4	27.0	14.3
	Change (%)	+7.6	+38.5	+31.7
NEC	1995-96	1,517.9	30.5	15.5
	1994-95	1,389.6	20.3	10.3
	Change (%)	+9.2	+50.5	+51.9
Toshiba	1995-96	1,676.5	32.3	24.7
	1994-95	1,521.4	24.7	17.2
	Change (%)	+10.2	+30.8	+43.7
Sharp	1995-96	633.8	35.0	19.8
	1994-95	615.3	31.2	15.6
	Change (%)	+3.0	+12.3	+27.1

* Before extraordinary items and tax. Source: Companies

Air NZ in talks with TNT on Ansett stake

By Bruce Jacques in Sydney and Reuter

Air New Zealand moved closer yesterday to forging a long-awaited trans-Tasman air alliance after TNT, the big Australian transport group, confirmed it was in talks to sell its 50 per cent stake in Ansett, Australia's second-largest airline, to the NZ carrier.

Air New Zealand, which has long sought a slice of Ansett as a way into Australia's domestic aviation market, failed to strike a deal earlier this year with Ansett's other main shareholder, Mr Rupert Murdoch's media conglomerate News Corp.

However, TNT, responding to growing market speculation, issued a brief statement to the Australian and New Zealand stock exchanges confirming that talks with Air New Zealand were under way although no deal was imminent.

Ms Yasmin Allen, aviation analyst at ANZ McCaughan, said she expected Air New Zealand to buy into Ansett in stages as part of a phased sale of TNT's interest in the airline.

Ansett, Australia's second largest carrier after Qantas, is one of News Corp's few remaining non-core assets with a value of about A$1bn (US$759m).

Air New Zealand is 41.9 per cent owned by Brierley Investments, the New Zealand conglomerate, and 19.4 per cent by Qantas. It was to have gained full access to the domestic Australian aviation market a year ago under the final stage of the 1992 trans-Tasman Open Skies accord, but Canberra vetoed the deal.

Matsushita in $100m games deal

By Alice Rawsthorn

Matsushita, the world's largest consumer electronics company, plans to expand its video games interests after clinching a $100m contract with 3DO, the graphics technology specialist, to develop a new generation of 64-bit games systems.

The contract, provisionally agreed by the two companies, involves Matsushita paying a $100m fee and royalties for the right to license the 64-bit M2 graphics technology invented by 3DO.

Matsushita, which plans to launch the first 64-bit M2 games systems under its Panasonic brand next year, is also acquiring the sub-licensing rights.

This will allow it to sell the right to use the technology to other hardware manufacturers.

3DO has been working closely with Matsushita. The Japanese group bought a 13.2 per cent stake in 3DO, based at Redwood City in California, in 1983. The two companies launched their jointly developed 32-bit games system, the Panasonic Real 3DO Interactive Multiplayer, in the same year.

They have sold about 800,000 multiplayers worldwide. However, the Matsushita system has been overshadowed by other 32-bit games formats, notably the Saturn, developed by Sega, one of the leading Japanese games companies, and the PlayStation from Sony, one of Matsushita's main rivals in consumer electronics.

The Saturn and PlayStation have out-sold the Panasonic Real 3DO Interactive Multiplayer.

To date, the PlayStation has achieved the highest sales, with Sony selling more than 1m machines in Japan since its introduction there last Christmas. The PlayStation also sold out within days of its UK launch last month.

Matsushita is anxious to improve its performance in the games market.

The group this week disclosed a 2 per cent fall in sales, from Y2.204bn to Y2.162bn ($21.7m), in the first half of this year, although it managed to increase net profits through cost-cutting. The chief contributor to the decline was its core consumer electronics interests. Other businesses, such as electronic components, were more buoyant.

The 64-bit M2 technology should enable Matsushita and 3DO to create games systems which are faster than existing 32-bit formats with more realistic graphics.

Matsushita also plans to apply the technology to digital video disc players.

Comalco likely to go ahead with smelter

By Nikki Tait in Gladstone, Queensland

Mr Terry Palmer, chief executive of Comalco, the aluminium group controlled by Australia's CRA, said yesterday it was "better than even money" that the group would go ahead with the development of a "greenfield" alumina refinery next year, costing more than A$1bn (US$749m).

The development of a new smelter, which has been discussed for years, would capitalise on the large bauxite resources which Comalco owns around Weipa in the far north of Queensland.

Although there has been much speculation about the likelihood of such a project going ahead and the possible sites for a new smelter both within and outside Australia, Mr Palmer indicated that he currently lent towards a site in Queensland.

If a decision to go ahead with the project was taken next year, the smelter could come on stream by 2000.

Its initial capacity would probably be around 1m tonnes, although there would be scope for expanding that substantially over the subsequent decade.

However, Mr Palmer conceded that estimates that the capacity and investment could be quadrupled over a 10-year period "contained a lot of blue sky".

He said Comalco would prefer to work independently if such a project were approved. It did not rule out bringing in a partner, but was not in active discussions.

The company's ability to handle a refinery project alone may be increased if the proposed operational merger of CRA and RTZ, the large UK-based mining company which owns 49 per cent of CRA, goes ahead.

The merger would give CRA subsidiaries access to the greater financial resources of the combined group.

Brewing side helps Lion Nathan

By Terry Hall in Wellington

Higher profits from its Australian and New Zealand brewing operations helped Lion Nathan to a 10.2 per cent rise in operating profits before abnormals and tax to NZ$231m (US$151.5m) in the year to August 31.

Beer volumes in South Australia fell, although the company's main brand in that state, West End, increased market share. Lion Nathan earns 76 per cent of its revenues from its Australian subsidiaries.

Lion Nathan Australia increased earnings by 8.9 per cent to A$250.4m (US$187.5m) on a 3.8 per cent rise in revenues to A$1.38bn. Earnings from the New Zealand liquor division were up 10.2 per cent to NZ$115m on a 1.8 per cent increase in revenues to NZ$573.3m.

Mr Douglas Myers, chief executive, said Lion Nathan's share of the Australian market had remained steady at 43.4 per cent over the past 18 months. In New Zealand, market share rose from 55.3 to 55.9 per cent.

Increased volumes and improved trading margins led to the soft drinks partnership with Pepsi Cola International almost halving its loss from NZ$11.6m in 1994 to NZ$5.5m this time. Revenues were up 7.8 per cent to NZ$230m.

Mr Myers said the company would also be seeking to develop its position in the Chinese beer market, where it has acquired a 60 per cent interest in a joint venture brewery at Wuxi in the Yangtsi River Delta.

Iron Dowager campaigns for the small broker vote

Daggers are drawn in the race for a seat on the council of the HKSE, writes Simon Holberton

The race for seats on the council of Hong Kong's stock exchange reaches its climax today when the exchange's 500 members vote to fill five vacancies on the 31-member council.

A seat on the council is seen as one of the plum jobs in Hong Kong's financial community. Council members have to vet new issues and rule on compliance and ethics issues.

"I think it is perceived to be a position of influence and power", said Mr Richard Witts, managing director of United Mok Ying Kee, a local brokerage, and retiring council member.

"In reality it is a lot of hard work, if you take the job seriously, for which you receive one gold pin to stick in your lapel and couple of banquets a year."

Today's poll is really two elections in one. Voting procedures imposed on the exchange five years ago by the Securities and Futures Commission, Hong Kong's corporate watchdog, ensure that large, mainly western, investment houses are adequately represented on the council.

Three of the five seats up for grabs will go to these houses, while two will be filled by stockbrokers representing small broker interests. All members, however, can vote for both groups if they wish.

However, the election is unlikely to produce any answers to the structural problems facing Hong Kong's small stockbrokers, who are being squeezed by their larger competitors.

Figures released this week by the exchange show that the 14 Category A brokers control about 40 per cent of market turnover.

The 50 next largest brokers control a third of turnover while the 440 Category C brokers share the remaining third of turnover.

However, the election does confirm that UK houses have in general lost out to US banks. The poll for three Category A seats pits US investment banks against the older, more established, UK merchant banks and relative newcomers such as Peregrine Investments.

The qualification for Category A status is making the top 14 in terms of share of stock exchange turnover. Three banks dropped out of the list for this election – Wardley, HG Asia (formerly Hoare Govett), and SHK Securities – and are believed to have been replaced by Morgan Stanley, Salomon Brothers, and probably Lehman Brothers.

Hong Kong's financial community is like a village where personal relations count for quite a lot. This week has seen a frantic bout of telephoning (and banqueting) as backers try to drum up support for their candidates.

Mr Philip Tose, Peregrine's chairman, has a somewhat austere demeanour which might count against him, as may the legendary wit of Salomon Brothers' chairman, Mr William Phillips. He once quipped that Chinese brokers could not tell the difference between New Year and New York – a slight which still rankles and which is expected to cost him votes.

The power in the exchange, in terms of votes, resides with the Chinese brokers who dominate the 450-plus membership of Category C. This year their loyalties are being tugged in opposite directions by two of Hong Kong's most colourful individuals: Mr Chim Pui Chung and Mrs Choi, who is running under her maiden name of Chen Po-sum.

Mr Chim, a broker, is the representative of the financial community in the Legislative Council (LegCo), Hong Kong's law-making body. Mrs Choi, otherwise known as the Iron Dowager, runs a small broking house and was once a confidante of Mr Chim – until she decided to challenge him in last month's LegCo elections.

Both, with daggers drawn, are fielding candidates for the two council seats in Category C. Both are campaigning as the small brokers' friend, but only Mr Chim has taken a view on who the Chinese brokers should support in the race for the three Category A seats. He is backing Mr Tose, Mr Alan Smith, chairman of Jardine Fleming, and Mr Patrick Sun, a director of SBC Warburg.

1/2 hour period ending	[illegible]	[illegible]	Pool selling price
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0100	[illegible]	[illegible]	13.04
0130	[illegible]	[illegible]	13.04
0200	[illegible]	[illegible]	13.04
0230	[illegible]	[illegible]	13.04
0300	[illegible]	[illegible]	8.97
0330	[illegible]	[illegible]	8.37
0400	[illegible]	[illegible]	13.04
0430	[illegible]	[illegible]	8.97
0500	[illegible]	[illegible]	8.97
0530	[illegible]	[illegible]	12.63
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1230	[illegible]	[illegible]	37.16
1300	[illegible]	[illegible]	38.13
1330	[illegible]	[illegible]	18.75
1400	[illegible]	[illegible]	18.39
1430	[illegible]	[illegible]	18.08
1500	[illegible]	[illegible]	17.56
1530	[illegible]	[illegible]	17.51
1600	[illegible]	[illegible]	17.12
1630	[illegible]	[illegible]	17.57
1700	[illegible]	[illegible]	17.88
1730	[illegible]	[illegible]	20.29
1800	[illegible]	[illegible]	20.23
1830	[illegible]	[illegible]	17.57
1900	[illegible]	[illegible]	28.13
1930	[illegible]	[illegible]	38.05
2000	[illegible]	[illegible]	38.00
2030	[illegible]	[illegible]	27.83
2100	[illegible]	[illegible]	18.94
2130	[illegible]	[illegible]	18.91
2200	[illegible]	[illegible]	16.89
2230	[illegible]	[illegible]	16.83
2300	[illegible]	[illegible]	16.69
2330	[illegible]	[illegible]	16.69
2400	[illegible]	[illegible]	12.63

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INTERNATIONAL COMPANIES AND FINANCE

Manville agrees $2.7bn LBO for Riverwood unit

By Maggie Urry in New York

Riverwood International, the paper packaging group 81.3 per cent owned by Manville of the US, is to be taken private through a $2.7bn leveraged buy-out. Shareholders are being offered $20¼ a share and Manville has indicated it will accept.

The buy-out, led by Clayton, Dubilier & Rice, involves paying $1.5bn for the fully diluted share capital of Riverwood, taking on $1.1bn of debt (which will be refinanced) and $100m in expenses. On completion the group will be relatively conservatively financed for an LBO, with around 30 per cent of its capital from equity and the remainder from debt.

Manville is a holding company which was reorganised while in Chapter 11 bankruptcy during the mid-1980s, when it quit its asbestos business. The stake in Riverwood is its main investment.

Clayton is putting $200m of its investment funds into the deal and has brought in other investors, including Brown Brothers Harriman, the private bank. Clayton has been involved in 22 deals with this by far the largest.

The price may disappoint investors who saw the shares as high as $26 in August. Manville said in April it was exploring options for a sale of its stake. Riverwood's shares rose $⅛ on the announcement to $19⅝ while Manville's shares slipped $⅛ to $12.

From the LBO viewpoint, though, the price is expected to generate a good return for the investors. Participants in such buy-outs look for a higher return than from quoted investments to compensate for greater risk involved.

Mr Thomas Johnson, president and chief executive of Riverwood, said the end of uncertainty over the group's ownership would allow it to pursue expansion opportunities which had been "on hold". He added that Riverwood's customers, which include leading soft-drinks companies such as Coca-Cola and PepsiCo, and brewers including Anheuser-Busch, Heineken and Miller, were in favour of the deal.

Riverwood's speciality is leasing packaging equipment to its customers.

In the first nine months of this year Riverwood had sales of $1bn and net income of $44.6m.

Boeing warns strike will hurt deliveries

By Michael Skapinker, Aerospace Correspondent

Boeing of the US confirmed yesterday that the strike by 33,000 workers would result in delays in aircraft deliveries in the fourth quarter, with a corresponding drop in earnings.

Boeing has continued to manufacture aircraft with the aid of supervisors and non-striking employees since the strike began three weeks ago. Mr Frank Shrontz, chairman, said, however, that a "substantial number" of deliveries would be delayed.

The strike was called by the International Association of Machinists and Aerospace Workers, representing a third of Boeing's workforce. Mr Shrontz said agreements with the group's 21,000 engineering employees expire in early December.

Boeing, the world's largest aircraft manufacturer, announced third-quarter net earnings of $225m, compared with $185m last time. The increased earnings were achieved on sales down to $4.4bn from $5.1bn. Earnings per share were 66 cents, compared with 54 cents a year earlier.

The increased earnings were largely due to a fall in research and development costs and a lower effective tax rate. The increase was offset by fewer commercial aircraft deliveries, which fell to 51 in the quarter from 66 last time.

Net earnings for the nine months were $175m after the $600m provision that Boeing announced in the second quarter to finance the group's early retirement programme.

Excluding the provision, net earnings for the nine months amounted to $624m, down from $699m last time. Sales for the period were $15bn, against $16.8bn.

Boeing said it delivered 170 aircraft in the first nine months, compared with 214 in the same period last year.

The group added that problems with the General Electric engine built to power the Boeing 777, meant delivery of the aircraft to British Airways, due to take place in September, would now occur in November.

Shake-up at Tandem as income declines

By Louise Kehoe in San Francisco

Tandem Computers, leading manufacturer of fault-tolerant computer systems, yesterday announced a shake-up of top management and revealed plans to spin off its networking equipment subsidiary.

It also reported a sharp drop in fourth-quarter income.

Mr James Treybig, Tandem's founder and chief executive, will resign his position and a new top executive is being sought. Two other senior executives will retire at the end of the year.

When a new chief executive is found, Mr Treybig will become chairman of the board, replacing Mr Thomas Perkins, a founding partner of Kleiner Perkins, one of the largest West Coast venture capital firms. Mr Perkins will remain on Tandem's board.

Tandem also plans to spin off UB Networks through a public offering.

The networking unit operated at a loss during the fourth quarter but is expected to return to profitability in the current quarter, Tandem said.

The changes were prompted by lower-than-expected group earnings for the fourth quarter, ended September 30, and uneven performance over the past year.

Fourth-quarter net income fell to $19.8m, or 17 cents a share, from $71m, or 62 cents. Revenues were $640m against $604.4m.

Tandem blamed the earnings decline in part on a delay in launching ServerNet, a technology for linking Unix computers to create high performance networks. The delay hit sales to the telecommunications industry, one of Tandem's biggest markets.

"Fiscal 1995 was ... a year of moderate growth interrupted by manufacturing difficulties and delayed product introductions," Mr Treybig said. "We are optimistic going into 1996 because we've fixed the problems and have tremendous opportunity in new markets."

For the full year, Tandem revenues were $2.3bn, against $2.1bn, while net income was $107.5m, or 91 cents, compared with $170.2m, or $1.50. Net income for fiscal years 1995 and 1994 included pre-tax gains from sales of subsidiaries of $9.3m and $23m, respectively.

AMERICAS NEWS DIGEST

White knight hopes lift First Interstate

Shares in First Interstate jumped yesterday on the prospect of another US bank bidding for the embattled Californian institution. The Los Angeles-based bank has yet to respond to last week's hostile offer from West coast neighbour Wells Fargo, but is believed to have approached other institutions in its pursuit of a white knight.

The most likely rival bidders for the bank are BancOne, Norwest Bancorp and First Bank System, according to Mr Frank Suozzo, a banking analyst at S.G. Warburg in New York.

All are banks with broad networks which extend across several of the Western states where First Interstate is represented. Each would be able to squeeze cost savings out of a combination with First Interstate – though not as much as Wells Fargo – and each has a stated aim of growing through acquisition.

None of the banks would comment yesterday. First Interstate's shares rose $4⅞ to $125⅞ yesterday morning, continuing their bumpy ride since Wells Fargo's bid was submitted nine days ago. *Richard Waters, New York*

Xerox short of expectations

Xerox disappointed the stock market yesterday with third-quarter earnings that fell short of most analysts' expectations. The US office equipment company's after-tax profits, though 27 per cent higher at $236m, or $1.93 a share, were some 15 cents a share short of the consensus forecast.

Earnings in the document processing business rose 38 per cent to $256m on revenues of $4bn, 11 per cent higher than a year before.

Mr Paul Allaire, chairman and chief executive, attributed the improvement to productivity improvements and "substantial" growth in the Latin American operations.

Xerox's insurance business lost $20m, against a profit of $1m a year ago, and its shares fell $3¾ to $130⅞ in morning trading in New York. *Richard Waters*

AIG registers all-round gains

Improved underwriting results and a steady rise in premiums enabled American International Group, the US insurer, to lift net income to $631m in the third quarter, a rise of 16 per cent from a year before. Earnings per share were $1.33, up from $1.14.

Operating income in general insurance operations climbed 22 per cent to $515m on premiums that were up 8 per cent at just over $3bn. The results were boosted by a sharp improvement in underwriting profit, which rose from $59m to $115m, while investment income was 8 per cent higher at $385m.

Life insurance income rose 14 per cent to $280m as premiums jumped 21 per cent to $2bn. The financial services business suffered a 5 per cent decline in earnings, to $95m. *Richard Waters*

Canadian Air sees full-year loss

Canadian Airlines recorded a healthy third-quarter profit but warned that it would still report a loss for the full year.

Earnings for the three months ended September 30 were C$96.3m (US$70.5m) or C$2.29 a share, up from C$85.4m or C$2.19 a year earlier, on operating revenues of C$945m, against C$857m. Operating income was a peak C$130m.

Operating costs increased, mainly because of higher capacity. In addition the rapid appreciation of the Japanese yen brought a foreign exchange loss, and the low Canadian dollar raised fuel costs.

Mr Rhys Eyton, who led Canadian Airlines out of near-bankruptcy, is retiring and will be replaced by Mr Harry Steele, a Newfoundland businessman *Robert Gibbens, Montreal*

US offshoot hits Vitro results

Vitro, Mexico's dominant glass company, reported lower third-quarter profits profits after higher financial costs and poor results from its chief subsidiary in the US bit into earnings.

Net income fell 7.6 per cent to 183m pesos ($27m), on sales down 2.8 per cent to 4.8bn pesos. However, operating profits increased by more than 6 per cent on the same period last year to 591m pesos.

"The company's operating performance is positive, but high peso interest rates have increased the cost of its financing," said Mr Luis Villalobos, an analyst at Citibank in Mexico City.

High domestic interest rates doubled interest payments to 923m pesos, compared with the same period last year. Vitro has one of the largest peso debts of any company in Mexico.

Continued poor results from Anchor Glass, Vitro's US glass container subsidiary which will report results next week, also depressed the figures.

"Anchor Glass has been a headache since the company bought it [for $900m] in 1989," said Mr Jorge Octavio Garza, an analyst at Vector, a Mexican stockbroker. "The company has to make some kind of decision about what it is going to do with Anchor." *Daniel Dombey, Mexico City*

Dow Chemical profit soars in third quarter

By Tony Jackson in New York

Dow Chemical continued its strong cyclical upturn in the third quarter, with earnings up 141 per cent at $571m. However, like other big US chemical companies reporting this week, Dow cautioned that prices for some basic chemicals and plastics had weakened since the mid-year.

Group sales were up 16 per cent at $4.9bn, with higher prices contributing 15 per cent and volume only 1 per cent. This represents a slow-down from the second quarter, when volume was up 9 per cent and prices 23 per cent.

In chemicals and performance products, operating profits were up 132 per cent at $422m on sales up 21 per cent. The profits increase was due to higher prices for bulk products, including latex and caustic soda.

In plastics, operating profits were up 120 per cent at $671m, on sales up 19 per cent. However, the energy and hydrocarbons business made a loss of $26m, compared with a $23m profit, on sales up 1 per cent.

Dow said despite the softening in prices of some basic chemicals, it still expected overall prices in the fourth quarter to be higher than a year ago.

Earnings per share of $2.15 were up 107 per cent, or 150 per cent on the basis of continuing operations. The figures do not include any contribution from Dow Corning, the joint venture put into Chapter 11 bankruptcy in May. Dow's shares were up $⅝ at $70⅝ in early trading.

Kerkorian steps up pressure on Chrysler

By Richard Waters in New York

Mr Kirk Kerkorian, Chrysler's biggest shareholder, has stepped up pressure on the US carmaker, setting the stage for what could become an all-out battle for control of the company's board later this year.

Mr Kerkorian's private investment company, Tracinda, formally asked for three seats on Chrysler's board.

It also asked the car group's directors to set up a committee to study whether the company really needs its $6.4bn cash reserve.

Allies of the billionaire Las Vegas investor have hinted recently that he might launch a proxy fight to win the support of other shareholders if Chrysler's board does not agree to his requests.

Mr Kerkorian failed to raise the money for a proposed buy-out of Chrysler earlier this year.

In recent weeks he has returned to the attack, with a more gradual offensive designed to press the carmaker's board into agreeing to pay out more of its cash to shareholders. Tracinda hired Mr Jerome York, a former chief financial officer of Chrysler and International Business Machines, to head its assault.

Chrysler said it would consider Tracinda's proposals, which it called "predictable". It added, though, that several of them raised questions of management control, and may not be in the interests of all its shareholders.

In a letter to Mr Robert Eaton, Chrysler chairman, this week, Mr York said: "As you know, we currently have no intention to acquire Chrysler." He added, however, that the company would continue to "actively manage" its investment, and called on the company to take a number of steps.

These included appointing three new directors, one of whom would be Mr York, and setting up a committee of non-executive directors to "review the appropriate size of Chrysler's cash cushion".

Also, Chrysler should raise the threshold of its "poison pill" takeover defences to allow shareholders to buy as much as 20 per cent of the company, rather than the current ceiling of 15 per cent.

Lex, Page 20

COMPANY NEWS: UK

Russian monopoly could purchase surplus from British Gas for sale to Germany

Gazprom may export gas from UK

By Robert Corzine

Gazprom, the giant Russian gas monopoly, may help British Gas out of its current financial bind by buying some of its surplus gas for export to Germany via a pipeline due to be opened by 1998.

But local opposition in Norfolk to the UK Interconnector, a proposed undersea link between Bacton and the Belgian port of Zeebrugge, threatens to scupper the deal and other potential export contracts which together could be worth hundreds of millions of pounds to British Gas.

Gazprom and British Gas officials met in London yesterday to discuss details of a sale that could involve the export of several billion cubic metres of gas a year to Wingas, a joint venture between Gazprom and Wintershall, the German natural gas subsidiary of the BASF chemical group.

But North Norfolk district council yesterday deferred consideration of the planning application made by the Interconnector consortium, in which British Gas has a 40 per cent stake and Gazprom a 10 per cent share.

Local officials said councillors were aware of the "national interest" in the project. But residents are concerned about potential noise pollution from a large compressor station the companies want to build in open countryside next to the Bacton gas terminal.

The council's planning department said local opposition to the plant would probably recede if the compressor station was within the Bacton terminal. But company executives say there are technical reasons why it needs to be on a greenfield site next to the terminal.

Construction of the pipeline is essential if British Gas is to reduce its gas surplus, which is equivalent to about a quarter of national annual consumption.

This week Ms Clare Spottiswoode, the gas industry regulator, warned that failure to address the underlying causes of the surplus could call into question the long-term survival of British Gas.

The company believes financial pressures on it will ease once it is able to export to Germany and other big markets in continental Europe.

British Gas has held talks with Ruhrgas, the dominant German gas company, and there have also been contacts with a number of other continental gas companies about potential sales.

Although Gazprom is keen to buy gas from the UK in the short-term, it eventually wants to supply the British market once the current surplus is eliminated, perhaps by the early years of the next decade.

ICI's margins decline in third quarter

By Jenny Luesby

Imperial Chemical Industries yesterday unveiled its weakest results of the year, with falling margins and static sales leading to a 14 per cent decline in underlying profits between the second and third quarter.

Excluding exceptional charges, pretax profits in the three months to September 30 were £248m, up from £131m a year ago, but down from £289m in the second quarter.

Turnover of £2.6bn was the same as in the second quarter, but was helped by £130m of sales from mid-June following the acquisition of US paint manufacturers Grow and Fuller O'Brien.

Sir Ronald Hampel, chairman, said the underlying contraction in sales was caused by a 4 per cent decline in volume, which was only partially offset by a 1 per cent increase in prices.

The weak demand had been caused by customers running down stocks accumulated earlier this year when chemical prices were rising.

This had been most noticeable in the US, but volume also fell by between 3 and 4 per cent in Europe, more than offsetting a 3 per cent increase in the volume of Asian sales.

Stronger prices for fertilisers, white pigments and the raw materials for polyester offset sharp declines in petrochemical prices.

But the industrial chemicals division, which traditionally accounts for some 40 per cent of turnover, saw margins slip from 13.9 per cent to 12.3 per cent as operating profits fell 20 per cent from the previous quarter, to £124m, on sales down 10 per cent at £1.1bn.

The paints business also suffered in market conditions described by Sir Ronald as "harsh". Despite a £7m gain to paint operating profits from the US buys, total operating profits eased from £33m to £32m between the second and third quarters, on sales up 13.5 per cent at £569m.

Explosives also recorded a sharp contraction in operating profit, on static sales. However, having cut 1,200 staff from the division over the past nine months, the group was "confident it would see its way through the current difficulties," said Mr Alan Spall, finance director.

Meanwhile, sales and operating profits held up in the materials division, thanks to "buoyant" sales of polyurethane.

Exceptional charges of £32m were for integrating the newly acquired US paint companies, and litigation costs in the US explosives business, and compared with exceptional gains of £12m.

Barclay brothers sell stake

By Scheherazade Daneshkhu, Leisure Industries Correspondent

London Clubs International, the casino operator, lost its largest shareholder yesterday when Mr David and Mr Frederick Barclay, the UK property tycoons, sold their entire 24.06 per cent stake for £68m ($107.4m).

The Barclay brothers, who own The European newspaper and hotels in London, Monaco and New York, recently acquired London's Ritz hotel for £75m from Trafalgar House, the conglomerate.

London Clubs said that because of this and other investments the brothers had decided to sell their shareholding, through Ellerman Corporation, their holding company. The shares were picked up by about 30 institutional shareholders.

London Clubs fell 10p to close at 412p.

The Barclays have been involved with the company, which floated last year, since at least 1989 when they backed the management buy-out from GrandMet.

London Clubs operates the Ritz Casino, for which it pays the Ritz hotel an annual rent.

Worries over Infotec buy hit Danka shares

By Patrick Harverson

Shares in Danka Business Systems fell sharply yesterday after the acquisitive photocopier group unveiled plans to buy Infotec, a Netherlands-based photocopier and fax machine distributor, for £109m ($172.2m).

The news of the deal, Danka's biggest to date, and the 67p fall in the shares to 489p in London, overshadowed the announcement of a 28 per cent increase in interim pre-tax profits from £21.1m to £27m.

City analysts said the share price decline was prompted by heavy selling in New York, where the group's stock is also listed.

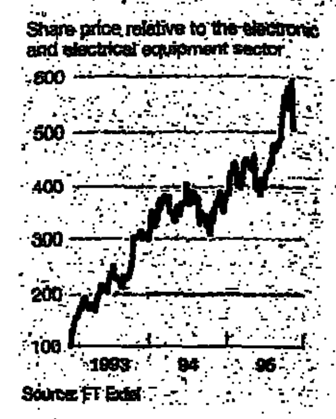
US institutions, which own a majority of Danka, were said to have been concerned about the financial and managerial costs of integrating Infotec – Danka is taking a £6m charge in the third quarter to cover a restructuring in the wake of the Infotec and other recent acquisitions – and about the fall in organic sales growth during the second quarter.

Like-for-like sales rose by 8 per cent in the second quarter. This compared to a 10 per cent increase in the first quarter and a 14 per cent rise in 1994.

However, Mr Mark Vaughan-Lee, chairman, attributed the fall in organic sales to the effect of integrating new acquisitions into the North American businesses and training US staff to sell and service high-volume Kodak photocopiers. Danka signed an agreement last month with Eastman

Danka Business Systems

Share price relative to the electronic and electrical equipment sector



Source: FT Extel

Kodak to market its high-volume copiers in North America.

Mr Vaughan-Lee said the disruptions would be temporary and the benefits from the Kodak deal were already apparent, with sales of high-volume copiers in the current quarter running ahead of budget.

Turnover in the first half was £330m (£236m), of which £41.6m came from acquisitions. Operating profits rose to £32.1m (£22.9m).

The interim dividend was 1.08p (0.9p).

The purchase of Infotec gives Danka a firm foothold in Europe. Infotec's 1994 operating profits were £13.3m on sales of £180m, and the acquisition will put Danka's annual European sales at about £240m.

Danka said the cash deal, which took the money spent on acquisitions in the past year to £190m, would be financed from existing and new bank borrowings.

Hasbro has 7% stake in Bluebird

By David Blackwell

Hasbro, the US toys and games group, yesterday revealed that it has a stake of almost 7 per cent in Bluebird Toys.

The disclosure comes just eight days after Bluebird shares leapt by more than a third when it announced a three-way agreement with Disney and Mattel, which rivals Hasbro for the number one position in the US toy market.

Hasbro said it had no intention of making an offer for Bluebird. Mr Torquil Norman, who founded Bluebird in 1980 and is still chairman, said he did not think there would be a battle over the group between the two US market leaders.

Bluebird shares yesterday closed at 360p, up 3p.

Hasbro's disclosure that it has 3.25m shares follows Bluebird's decision to compel the conversion of its remaining loan stock. Hasbro said it had bought the loan stock in March as an investment.

In March next year Bluebird will launch a range of collectable miniature playsets based on Disney characters from Mickey Mouse and Donald Duck to the Lion King and Pocahontas. Mattel will distribute the toys outside the UK and the Republic of Ireland.

NEWS DIGEST

Fisons to sell J&W Scientific

Fisons is proposing to sell J&W Scientific for $35m (£22m) cash to Saratoga partners, the corporate buy-out arm of Dillon Read.

The sale of the California-based manufacturer of gas chromatography columns will complete the sale of Fisons' laboratory supplies division and follows completion of the sale this month of Curtin Matheson Scientific and Fisons Scientific Equipment to Fisher Scientific International.

Sale proceeds will be used to cut group debt.

Air London

As intimated in its trading statement in July, Air London International, the USM-traded charter broker, enjoyed a bumper year.

With overseas clients providing a 44 per cent contribution, against 33 per cent a year earlier, turnover for the 12 months to July 31 jumped 60 per cent to £29m. Pre-tax profits advanced from £640,000 to £1.07m – the highest level since 1991-92.

The company said that charters of private jets, air taxis and helicopters increased by a third and showed improved margins, while contribution to profits from the charter of larger aircraft for corporate use was ahead by more than 50 per cent.

Bula reduces loss

Bula Resources, the Dublin-based oil exploration and production company, cut first-half pre-tax losses from I£218,000 to I£125,000 (£128,000).

Turnover was reduced to I£155,000 (I£367,000) because of decreased gas production and lower gas prices. A fall in depreciation charges, however, cut operating losses.

The company said that the principal outstanding matter regarding its agreement with the Russian Corporation over the title to certain shares in Aki-Otyr, the oil joint stock company, had not been completed.

Since the period-end the company had acquired a 25 per cent interest in Mir Space International, which was involved in developing an oil field in western Siberia.

Heritage in red

Heritage, the housewares distributor, lurched into the red in the year to April 30 as "sluggish" consumer spending continued to squeeze margins.

The company sources its products from volume manufacturers, mainly in Europe, and distributes them to the leading multiple retailers and wholesalers.

Losses before tax were £919,000 (profits £105,000) after an exceptional £700,000.

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COMPANY NEWS: UK

Harnischfeger Industries forms giant mining equipment maker

Dobson Park agrees US deal

By Tim Burt

Harnischfeger Industries of the US yesterday secured an agreed takeover of Dobson Park Industries, its UK rival, and pledged to create one of the world's largest mining equipment manufacturers.

The Milwaukee-based maker of coal-cutting equipment won a recommendation from the Dobson Park board after increasing its offer from 110p a share to 130p, valuing the UK company at £203.6m. Harnischfeger decided to lift its initial £172m bid after Dobson Park published figures showing improved profits from Longwall International, its roof supports and conveyors subsidiary.

Mr Jeffery T. Grade, chairman and chief executive of Harnischfeger, said Longwall would be integrated with Joy Mining Machinery, its mine equipment business.

"The resulting combination will provide our global customers with the world's most advanced longwall mining system," he added.

The group's enlarged mining division is expected to have a turnover of about $1.5bn (£949m) a year.

Dobson Park, which had rejected Harnischfeger's earlier bid, agreed to recommend the revised offer after the US group promised to pay shareholders an additional dividend of 3.3p.

The pay-out matched the final dividend offered by Dobson Park last week, when it announced a 41 per cent increase in pre-tax profits to £14.8m. Dobson Park investors will therefore receive 133.3p a share. The shares stood at 83p before Harnischfeger announced its interest last month.

"They've offered a fair price that recognises the proper value of the company," said Mr Adrian Buckmaster, chief executive of Dobson Park.

Mr Grade said Harnischfeger would push ahead with Dobson Park's plans to sell its non-core toys business and was likely to scale back the UK group's industrial electronics division. "We will rationalise this company down to our core business and that means the mining activities."

While pledging to safeguard employment rights of Dobson Park workers, Mr Grade said it had not yet decided whether any senior management would be offered positions with Harnischfeger.

Dobson Park shares closed up 9p at 132p.

SB buys S African healthcare manager

By Daniel Green

SmithKline Beecham, the drugs company, has extended its healthcare management operations from the US to South Africa with the acquisition of Total Support Management for an undisclosed sum.

The deal is a sign that SB wants to export the managed care idea – in which companies offer to negotiate deals with healthcare suppliers on behalf of payers such as insurance companies – beyond its US origins.

The TSM group consists principally of two businesses: Home Medication Services, South Africa's largest mail order pharmacy company and Interpharm, the country's third largest Pharmacy Benefit Manager (PBM).

Last year, SB paid $2.3bn (£1.45bn) for Diversified Pharmaceutical Services, a US PBM.

The latest deal follows the acquisition in May by Glaxo Wellcome of the UK and Eli Lilly of the US of Medikredit, the dominant drugs prescriptions management business in South Africa.

Medikredit provides a range of services, including prescription collection, checking and auditing.

It has contracts with almost all of South Africa's 3,000 retail pharmacies and more than half of its 190 registered private health schemes.

"Significant changes are taking place in the privately funded South African healthcare industry which roughly mirror changes that have occurred in the US," said SB.

It has established a new company, to be called Diversified Health Systems, in South Africa which will assume ownership and operational control of the acquired TSM businesses.

The company said the acquisition was "consistent with SB's long-term strategic vision of moving from selling pills to providing total healthcare solutions."

Scholl dissidents withdraw from talks

By David Blackwell

Rebel shareholders in Scholl yesterday surprised the healthcare products group by withdrawing from talks on the appointment of a non-executive director.

J.O. Hambro & Partners, which has a 10 per cent stake and has been acting in concert with Active Value Advisors, said that all discussions "have now been terminated".

On Tuesday Scholl defeated an attempt by the rebels to replace three non-executive directors at an extraordinary meeting. However, the board said it was prepared to continue talks with the rebels on appointing a further non-executive director acceptable to all parties.

Yesterday Mr Gordon Stevens, chairman of Scholl, said he was "surprised and exceedingly disappointed" that the talks had been ended.

Mr Julian Treger of Active Value Advisors, which has been leading the rebels, said the business was "clearly up for sale".

Bowthorpe makes US buy for up to $28m

By Katrina Lowe

Bowthorpe, the electrical components group, has agreed to acquire Telecom Analysis Systems for a maximum of $28.2m cash.

The deal is Bowthorpe's first since it hinted last month at further acquisitions of sensor and instrumentation manufacturers. Mr Colin McCarthy, financial director, said yesterday the group was continuing to search for other suitable purchases.

Bowthorpe's shares yesterday firmed 6p to 428p.

New Jersey-based TAS manufactures test instrumentation systems for the telecommunications industry.

In the year to November 30 1994 pre-tax profits were $1.4m (before non-recurring expenses of $700,000) and net assets were $3.9m.

An initial $12.5m cash is due on completion. Two further payments are scheduled; the first, linked to profits growth, is due early next year. The final payment, due in 1999, is linked to profits and net assets.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Air London Intl §	Yr to July 31	29	(18.1)	1.07	(0.64)	7.6	(4.7)	2.4	-	1.9	4	3.5
British & American	6 mths to June 30	0.908♦	(0.839♦)	0.776	(0.675)	22.17	(18.48)	5.5	Nov 24	4.8	-	15.3
Bula Resources ♣	6 mths to June 30	0.155	(0.357)	0.125L	(0.218L)	0.012L	(0.029L)	-	-	-	-	-
Danka Business	6 mths to Sept 30	329.9	(236)	27	(21.1)	9.8†	(7.5)	1.08	Jan 24	0.9	-	1.8
Eurovein	Yr to July 31	32.6	(35.7)	1.18♠	(1.07)	9.2L	(14.6)	nil	-	-	0.51	s-
GR Holdings	Yr to June 30	3.66	(3.95)	0.346L	(0.579L)	4.5L	(8.5L)	nil	-	0.7	-	23.6‡‡
Heritage	Yr to Apr 30	12.1	(12.7)	0.919L♠	(0.105)	16.27L	(1.91)	nil	-	nil	nil	nil
ICI	9 mths to Sept 30	7,708	(6,813)	749♠	(383♥)	61.6	(28.5)	-	-	-	-	27.5
Plantation & Gen	6 mths to June 30	22.4	(21.8)	1.57♥	(0.971♥)	2.8	(1.4)	1.2	Jan 2	1	-	2.5
Pressac	Yr to July 31	57.3	(37.9)	4.61	(2.21)	9.01†	(5.2)	2.6	Dec 15	2.08	3.5	2.83
Westbury	6 mths to Aug 31	89.6	(80)	6.51	(5.76)	6.5	(5.8)	2	Jan 4	1.9	-	5.75

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fleming Euro Fledge	6 mths to Sept 30	119.7	(102.2)	0.331	(0.373)	0.62	(0.93)	-	-	-	-	nil
Investors Capital	Yr to Sept 30	152.85	(134.2)	14	(13.5)	5.65	(5.43)	1.325	Dec 15	1.3	5.3	5.2
K'wort Emerging	6 mths to Sept 30	120.4	(141.7)	0.032	(0.063L)	0.11	(0.3L)	-	-	-	-	-
Majedie	Yr to Sept 30	249	(227)	3.42	(2.97)	6.5	(5.84)	3.75	Jan 4	3.25	5.75	5.25
MG Equity Income	Yr to Sept 30 ☆	162.7	(141.1)	2.04	(1.83)	5.91	(5.32)	3.57✝	-	2.8	5.77	4.8
Overseas	Yr to Sept 30 ☆	422.9	(417.7)	1.58	(1.38)	4.16	(3.61)	2.6	Dec 19	2.45	3.5	3.3
Schroders Income	8 mths to Aug 31	106.95	(-)	2.09	(-)	2.64	(-)	-	-	-	2.25	-
Scottish Mortgage	6 mths to Sept 30	275.3	(241.6★)	12.7	(10.8)	3.52	(3)	1.5	Dec 1	1.4	-	4.4
Scot Oriental Smaller	28 wks to Aug 31	107.2	(99)	0.148	(-)	0.62	(-)	0.43	Jan 26	-	0.43	-

Dividends shown net. Earnings shown basic. Figures in brackets are for corresponding period. §USM stock. ♦Total income. ♣Irish currency. †On increased capital. ♠After exceptional charge. ♥After exceptional credit. ‡‡Includes special of 22.5p. ☆Comparatives restated. ✝Includes 0.4p foreign income dividend. ★At March 31 1995.

LEGAL NOTICES

H DAWSON & CO LIMITED IN RECEIVERSHIP
Joint Administrative Receivers appointed 14 August 1995

Notice is hereby given, pursuant to section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above-named company will be held at Salisbury Chambers, 2 Albert Street, Harrogate HG1 on 10 November 1995 at 12.00 noon. Creditors whose claims are wholly secured are not entitled to attend or be represented at the meeting. Other creditors are only entitled to vote if: a) they have delivered to us at the address shown below, by no later than noon on 9 November 1995, written details of the debts they claim to be due to them from the company, and the claim has been admitted under the provisions of Rule 3.11 of the Insolvency Rules 1986; and b) there has been lodged with us any proxy which the creditor intends to be used on his or her behalf.

Dated: 20 October 1995
Signed: D J Stokes and D J Waterhouse
Joint Administrative Receivers
Coopers & Lybrand
1 East Parade
Sheffield S1 2ET

APPOINTMENTS WANTED

RECRUITMENT

Jobs: UK employers are following their US counterparts in refining university recruitment methods

Targeting the top graduate talent

Which universities do employers favour when looking for graduate recruits? As recruitment becomes increasingly focused on selected universities, this question is beginning to take on greater importance.

The question has been posed for the past five years by the independently financed Performance Indicator Project* run from Harlaxton College, Grantham and Nottingham Trent University.

Cambridge has retained its most favoured status this year among 155 UK recruiters which responded to the PIP survey.

The University of Manchester Institute of Science and Technology (UMIST) took second place, followed by Manchester, Oxford, and Bristol in the next three places ahead of Edinburgh, London's Imperial College, Loughborough, Leeds and Nottingham. The survey also looks at those universities most favoured by subject. The three most favoured universities by subject are listed below in order of preference:

Engineering and Technology: UMIST, Loughborough, Cambridge;
Construction and Civil Engineering: Cambridge, Leeds and Loughborough (joint first);
Languages: Oxford, Cambridge, Edinburgh;
Law: Oxford, Cambridge, Durham (in joint second position);
Electrical Engineering: UMIST, Imperial College (London), Cambridge;
Science: Cambridge, UMIST, Bristol, Imperial (joint third);
Computing: Cambridge, Imperial, Manchester (joint third);
Business Studies: London School of Economics, Warwick, Edinburgh;
Accountancy, Banking and Finance: Kent, LSE, Manchester, Warwick (joint third);
Social Science and Economics: LSE, Oxford (joint first), Cambridge.

The most favoured university career services were Loughborough, Manchester and UMIST.

What is clear is that the perception of the quality of universities differs depending on the courses. Some 33 universities entered the top 10 in at least one of the categories.

The subjects covered in the survey reflect those areas which have the most recruitment activity. This year there was a more even spread of recruitment for different areas. Engineering and Technology produced the greatest number of recruits (269), but this compares to 353 the previous year. The most frequently cited criterion for positive selection was degree classification followed by good A-levels grades and work experience.

Such studies are likely to grow in importance if UK recruiters follow the US approach, where graduate recruitment is being refined to an art form.

Yellowbrick Training and Development, a Glasgow consultancy specialising in graduate development, has just completed a study of graduate recruitment practices among North American companies. Colin Graham, a Yellowbrick partner, said the study revealed a high degree of targeting by US recruiters, not just of universities but of specific courses and lecturers, particular student societies and student leaders. Companies also used guest lecturing and summer jobs to get to know potential recruits.

Graham says that some US companies have developed their recruitment teams while others have chosen to contract out certain functions.

UK companies are increasingly opting to outsource recruitment because of the high costs involved in participating in the annual milk-round. Many employers already limit their milk round visits to a chosen few universities, inevitably limiting access to the overall pool of graduates.

> There are growing signs that British companies are becoming sick and tired of surveys

Robert Walters, who runs the City recruitment firm of the same name, says that graduate recruitment is becoming an important part of the agency business.

"One of the most obvious advantages is that we get the candidates to come to us rather than us go to them." He reckons that interviewing 50 graduates can cost £50,000 in managerial time.

A typical cost per hire, says Walters, would be £7,000 to £10,000 per graduate employed. A consultancy, he claims, can reduce that figure to between £3,000 and £5,000 per graduate.

Graham has found some companies unwilling to undertake such an option. "Some say that outsourcing recruitment is like outsourcing your soul because it's a fundamental business function," he said.

Another option is to opt for a halfway house, allowing a recruitment department to act as a semi-independent business. This is what International Business Machines, the computer company, has done in the US with its National Recruiting company. The recruitment team sells its services on a commercial basis to other parts of IBM and can take on contracts from outside the company.

There are growing signs that British companies are becoming sick and tired of surveys. This seems particularly apparent by the lack of contributors to an annual survey of boardrooms**, carried out by Korn/Ferry Carre/Orban International.

Last year the survey had 155 responses, this year the number is 96. Moreover, many companies wrote to Korn/Ferry explaining that they now had so many survey requests that they had decided not to take part in any because of the time and effort involved.

Michael Brandon, the Korn/Ferry partner who carried out the survey, detected an increasing sensitivity in boardrooms, perhaps because of the Cadbury and Greenbury reports. "I don't think it's any coincidence that corporate image has become a top priority," he said, as companies became conscious of "fat cat" taunts.

The survey focused on boardroom pay structures. Some 83 per cent of directors in the survey had pay increases while 75 per cent of the companies increased their profits in real terms. Nearly half of the companies reported reductions in their workforce.

The survey gauged the success, so far, of issues related to the Greenbury report on executive pay. Some 46 per cent of the larger companies (by turnover) included bonuses or other cash payments in their pension calculations. Greenbury recommended that bonuses should not be pensionable. Two-thirds of the executives in the sample had contracts of two years or more. Greenbury says that a one-year contract is enough. Just over half the companies (55 per cent) included performance conditions in their share option schemes, as recommended by Greenbury.

One other finding of the survey was that out of 402 executive directors only two were women. Last year there were two women among 477 directors. Of 324 non-executive directors, seven were women compared to 18 out of 354 last year. Brandon says: "Those companies that are concerned about equal opportunities have got to start thinking about an encore beyond one executive woman on the board."

** The report of the Graduate Recruiters' Survey 1995 costs £26 and can be obtained by writing (no telephone calls) to Dr Cliff Pettifor, Performance Indicator Project c/o Harlaxton College, Grantham, Lincolnshire, NG32 1AG.*

*** The 1995 UK Board of Directors Study costs £99 and can be obtained by contacting Deborah Kidby tel 0171 312 3170.*

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For further information, please contact:
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E-mail: gabriel.anderbjork@era.ericsson.se

Martin Englund, phone +46 8 404 41 04,
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FINANCIAL ANALYST

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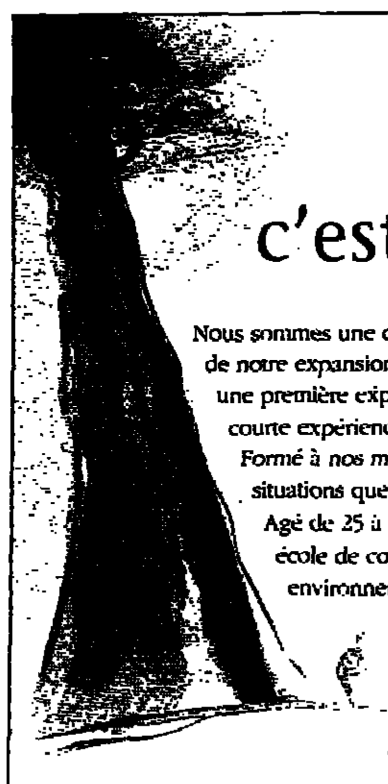

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Nous vous remercions d'adresser votre dossier de candidature (CV, lettre de motivation manuscrite et photo), sous la référence FT/1195, à Deloitte Touche Tohmatsu, DRH, 185 avenue Charles-de-Gaulle, 92200 Neuilly-sur-Seine, France.

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This appointment is being handled exclusively by Hitchenor Maher, please reply in writing quoting reference FT958010 to 27 York Place, Leeds LS1 2EY. Tel: (0113) 247 0170. Fax: (0113) 247 0191.

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COMMODITIES AND AGRICULTURE

Market Report

'Squeeze' fears widen nearby coffee premium

COFFEE futures fell at the London Commodity Exchange yesterday after a bout of mixed selling, including some by producers, but traders said nearby supply tightness and what looked as if it might be a "squeeze" sent the prompt November delivery position to hefty $131-a-tonne premium at the close.

"Someone is squeezing November," said one trader. Another attributed the widening premium to tight availability of physical coffee, which he said was being taken up as fast as it was offered. "[Physical] coffee availability is very finely tuned," he said. "There is some origin selling above the market on the one hand but it is taken out straight by the roasters."

Traders thought physical coffee supply would remain tight until January, when new coffee crops began to come into the market.

At the close the second-month January contract was down $19 at $2,315 after trading as low as $2,300 a tonne. But the November contract ended only $5 down at $2,445.

LCE white SUGAR futures turned lower after the New York raws market plummeted on heavy commission house selling and London trade houses tried to hedge long physical positions, traders said.

"All these trade houses are long on physicals and I think that is the big problem," one suggested. "If it goes up too high they're being called on margins, if it comes down too far and they cover their shorts, they have to rethink where they can resell it to try to lock in the hedge."

COCOA futures prices were slightly firmer at the close on Thursday after a test of the top end of the range failed to attract support. "It was contrived," a broker said, after a small group of market players was reported to have attempted to push the March delivery position through resistance at £959 a tonne.

World OIL prices moved higher as traders reacted bullishly to a wave of North Sea crude purchases that drained supplies well into November. Traders said the refiner buying spree quickly spilled over into the futures pit, where prices shot past long-established technical barriers.

Compiled from Reuters

Grain crop estimates reduced

By Richard Mooney

The International Grains Council's latest market report, released yesterday, confirmed that the world supply situation was continuing to tighten.

Sharp cuts in its estimates of production in Mexico and the US were largely responsible for a 14m-tonne reduction in projected coarse grains production for 1995-96, the IGC said. It put the total at 801m tonne, compared with 815m in its report dated September 20. In 1994-95 world production was 869m tonnes. With the 1995-96 consumption estimate coming down to 86m tonnes from 92m last month the IGC's estimate of world coarse grain stocks at the end of the current season was reduced by 7m tonnes to 86m.

At the same time the council revised its world wheat harvest estimate for 1995-96 to 526m tonnes from September's 529m. That would be slightly up from 1994-95's 527m tonnes but well below the 558m tonnes of the previous year. The IGC blamed the latest cut chiefly on deteriorating crop prospects in Argentina and Kazakhstan.

The council cut its wheat consumption estimate by 1m tonnes to 538m and its end-season stocks figure by 1m tonnes to 92m.

Greek olive oil emerges from the shadows

Ann Elder on efforts to promote international awareness of the country's product

In Greece no commodity is more honoured than *parthéno elaiólado* – virgin olive oil. Greek faith in the health-giving virtues of olive oil is shown by national intake, stable for nearly 20 years, of 20 litres a head a year, about twice the amount consumed by Italians or Spaniards, according to the International Olive Oil Council.

On world markets, however, the Greek olive oil industry is facing an identity crisis. Nearly 90 per cent of the country's virgin oil exports are shipped in anonymous bulk and about 80 per cent is swallowed up by market leaders in the Italian olive oil industry. Premium quality Greek oil is mixed with lower grade Italian, Tunisian or Turkish to make an optimally marketable product.

Spanish producers take much of the rest of bulk exports, also for use as an ameliorative. Only 10 to 15 per cent of virgin olive oil exports leaves the country packaged and labelled as Greek.

"When bulk exporting began to Italy 15 to 20 years ago, Greece did not foresee the present market situation," admits Mr Gregory Antoniadis, general secretary of the Greek Association of Olive Oil Packers and group product manager at Unilever-controlled Elais, the biggest Greek olive oil packer.

Efforts are now beginning to create an image abroad for the Greek-branded product. "To safeguard the future of Greek olive oil, Greek-named presence is needed in the major world markets," says Mrs Anastasia Garyphallou, director of the Hellenic Export Promotion Organisation.

Greek producers are not too unhappy at the moment, however, as money is almost literally growing on Greece's 130m-plus olive trees.

The 1994-95 winter output was some 320,000 tonnes, much of it classifiable as extra virgin. Growers kept the best third or so for their own consumption, but the starting price for premium quality reaching the market was around Dr800 (US$3.40) a kilogram, up from Dr700 in the two previous years, say local producers. And the price has since risen to Dr1,050 ($4.53) a kilo, nearly matching the 1991-92 level of Dr1,150, to which it was driven by catastrophic falls in output in Italy and Greece.

On top of the market rate, from October 16 to December 31 growers will pocket European Union subsidies – Dr430 a kilogram for the 58 per cent classified as small producers and Dr385 for the rest.

Unfavourable weather led to poor olive crops last year in Italy and Spain and the same seems likely to happen this year, says Mr John Kelidis, deputy acting director at Eleourgiki, the central growers' body, which acts for 58 cooperative unions whose members cover 90 per cent of the 400,000 families cultivating olives in Greece.

Satisfaction with present prosperity is tempered, however, by concern about the Greek product's lack of recognition on the international market.

Between 70 and 75 per cent of Greek olive oil output is likely to be extra virgin, mainly from the Koronéiki, Kotsourélia and Manáki olive varieties. Only 40 to 50 per cent of the oil from Puglia, Calabria and Sicily, Italy's main producing regions, is extra virgin. In Spain the proportion is about 30 per cent.

Italy produces at most just under 700,000 tonnes of olive oil a season, falling possibly, as in the 1990-91 season, to some 175,000 tonnes, according to IOOC figures. Average output of about 400,000 tonnes meets only domestic consumption. Spain produces about 600,000 tonnes, while consuming some 420,000 tonnes.

The Greeks rue the fact that they began bottling only in the 1960s, while the Italians began marketing bottled oil nearly 100 years ago.

Greeks acknowledge Italian marketing expertise with rueful respect.

"Italian traders certainly know their business," says Sophokles Orphanos, director of the Ministry of Agriculture office in Herakleion, Crete. "They recognise Cretan olive oil is the best in the world, because of our production methods and climate." As much as 95 per cent of Cretan oil may be extra virgin.

To raise awareness of the Greek product, a Hellenic Olive Oil Promotion Committee has been active since 1992. Members include representatives of packers' organisations, the Ministry of Agriculture and HEPO. To avoid clashing with middle range Italian producers, the strategy is to try to increase demand for top quality, extra virgin Greek-labelled products, says HEPO's Mrs Garyphallou.

"We began last year in the US. The aim is to establish Greek labelled olive oil in the real American market, in general supermarkets, not only in the Greek-American market, which till now has been the main consumer of Greek olive oil in America." Promotion has extended this year to Canada and may begin next year in the UK.

The US imports some 120,000 tons of olive oil a year, about 75 per cent from Italy, 12 to 15 per cent from Spain, 8 to 10 per cent from Tunisia, Turkey and France, and a mere 2 to 4 per cent from Greece.

To enhance the quality image, the committee backs development of controlled appellation of origin – *Prostatefómenis Onomasías Proélefsis* (POP) – virgin and extra virgin oil in Greece.

The first POP olive oil, *Lygourio Asklepiou* from Manáki olives, was produced this year by a small grower, Vangelis Melás, in the Argoloid, near the ancient theatre of Epidavros. Most went to the US, says the Ministry of Agriculture in Athens, where a bottle is proudly exhibited, its authenticity guaranteed by seal over the cap.

Ministry approval has been given to 22 regions in Greece, 16 in Crete, for POP extra virgin olive oil. Among them is Kolymvari in western Crete, where 4,000 growers cultivate mainly Koronéiki olives to produce some 6,000 tonnes of oil. The union product has penetrated the US and UK markets, thanks to inside help from expatriates in both cases, says general manager Mr George Arhondakis.

Not everyone thinks POP olive oils will boost sales, however. "They do not have a big market," says Mr Kelidis. "After four or five years Italy manages to sell only 2,000 tonnes. Per capita EU income does not allow enough consumers to spend more on top quality. Promoting such olive oil cannot be seen as a panacea."

But the Greeks are optimistic that their campaign will eventually pay dividends. New markets are opening up each year and world consumption of olive oil, now about 1.85m tonnes, with 1.35m in the EU, is expected to reach 2m by 2000.

Dr George Baourakis, head of the economics department at the EU-funded Mediterranean Agronomic Institute of Chania (MAICH), emphasises that high quality, extra virgin olive oil is ideal for niche marketing strategies.

"Among non-producing countries, the UK and Germany have had low consumption, but significant growth rates. More consumer awareness in these countries of products with health-related attributes and their purchasing power provide a potential for expansion . . . A unique opportunity exists for market penetration."

'Crop delays keep sugar firm'

By Deborah Hargreaves

Delays in the new crop of sugar hitting the world markets have kept prices firm in spite of a sugar surplus according to the latest report by London-based commodity broker E.D. & F. Man. The broker says that the reluctance of European Union producers to export and the expectation of delays in shipments from northern Brazil have supported prices.

"The overall seasonal surplus in raws therefore contrasts with the present lack of availability which is delaying the much anticipated fall in prices," the report states.

At the same time, Man expects Indian shipments of white sugar to fall below EU standards. "As a result, the overall whites surplus is camouflaging the tightness of EU quality sugars," the report says.

Overall exports from the EU are expected to be below last year's levels because of the need to rebuild stocks and fulfil demand from domestic processing industries. Man estimates EU exports at 4.3m tonnes – 500,000 tonnes lower than in 1994-1995.

The broker expects prices for raw sugar to come under pressure towards the end of the year. But in looking at prices, the report points to the need to consider large quality differences in sugar and the increasing isolation of the futures contracts from the developments in the physical trade.

Wider ownership urged for London Clearing House

The London Clearing House would be strengthened by wider ownership among its international membership, said Mr Michael Jenkins, chairman of a widely-based derivative industry UK working party, yesterday, reports Reuters.

"The committee is looking at various way in which it (the LCH) might be strengthened," said Mr Jenkins – chairman of the Futures and Options Association and of the London Commodity Exchange.

"It is looking at the long-term structure of the clearing house and carries no time restraint," he added.

But all is not yet agreed and some brokers said the London Metal Exchange, which is not a cash cleared market, was cautious at taking on ownership of a clearing house described by one as "a risk business". "As a trade market we want an assurance that we would not be pressured into changing our way of trading by other London exchanges which are traditional futures markets," said another.

Much LME business is done on credit and bank guarantees with final payments not having to be made until contract maturity, rather than on liquidation of a trading position.

The committee is made up of representatives of the clearing house, the London exchanges, their clearing members and the six British clearing banks who now own the LCH.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1654-5	1690-1
Previous	1642-3	1679-80
High/low	1656.5/1655	1695/1687
AM Official	1656-6.5	1693-4
Kerb close		1688-9
Open int.	221,867	
Total daily turnover	45,633	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1400-10	1440-45
Previous	1395-405	1435-40
High/low		1440
AM Offical	1400-10	1440-50
Kerb close		1440-50
Open int.	3,011	
Total daily turnover	1,600	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	703-5	683-5
Previous	697.5-9.5	679-80
High/low	707	688/680
AM Official	706-7	686-7
Kerb close		681-2
Open int.	33,581	
Total daily turnover	5,970	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8820-30	8895-900
Previous	8585-95	8680-85
High/low		9030/8685
AM Official	8890-900	8940-50
Kerb close		8850-55
Open int.	45,605	
Total daily turnover	17,957	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6300-10	6355-65
Previous	6175-85	6240-50
High/low		6385/6280
AM Official	6285-95	6340-5
Kerb close		6330-40
Open int.	18,538	
Total daily turnover	5,642	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1003-4	1026-7
Previous	965-7	990-1
High/low		1033/992
AM Official	1003-4	1026-7
Kerb close		1029.5-30.0
Open int.	80,801	
Total daily turnover	20,022	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2858-63	2748-7
Previous	2786-91	2698-9
High/low	2855	2757/2715
AM Official	2853-5	2745-6
Kerb close		2729-30
Open int.	185,163	
Total daily turnover	75,912	

■ LME AM Official £/$ rate: 1.5770
LME Closing £/$ rate: 1.5745

Spot: 1.5755 3 mths: 1.5725 6 mths: 1.5693 9 mths: 1.5656

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	127.75	-0.30	130.20	127.50	131	483
Nov	127.00	+0.60	128.45	127.10	52	1,561
Dec	125.00	+0.60	127.70	124.00	4,174	22,688
Jan	123.80	+0.60	124.70	123.50	10	887
Feb	122.15	+0.40	-	-	4	445
Mar	121.20	+0.20	123.50	121.10	538	6,099
Total					5,499	38,286

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	382.50-382.80		
Opening	382.40-382.70		
Morning fix	382.70	242.507	433.714
Afternoon fix	382.90	243.188	435.832
Day's High	382.90-383.20		
Day's Low	382.40-382.70		
Previous close	382.80-383.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....3.78 6 months 3.60
2 months ....3.75 12 months 3.69
3 months 3.55

Silver Fix	p/troy oz.	US cts equiv.
Spot	344.25	534.85
3 months	349.10	550.40
6 months	353.60	556.55
1 year	363.55	568.75

Gold Coins	$ price	£ equiv.
Krugerrand	382.00-384.00	242-244
Maple Leaf	393.35-395.85	-
New Sovereign	87-90	55-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	382.9	-0.2	-	-	5	4
Dec	384.3	-0.2	384.9	384.1	16,620	107,037
Feb	388.3	-0.3	386.9	386.1	2,030	25,687
Apr	388.7	-0.3	389.0	388.7	105	9,944
Jun	391.3	-0.3	392.0	391.4	6	10,771
Aug	393.8	-0.3	-	-	40	2,941
Total					19,869	192,345

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	409.5	-4.6	413.6	412.5	11	183
Jan	410.0	-4.6	414.0	409.0	3,514	19,762
Apr	410.3	-4.6	413.6	409.1	163	1,784
Jul	411.3	-4.6	-	-	2	1,666
Oct	411.5	-4.6	-	-	1	124
Total					3,691	23,523

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	135.30	-2.45	137.75	135.25	188	4,768
Mar	136.55	-2.45	136.50	136.50	16	1,224
Jun	137.90	-2.45	-	-	-	125
Total					204	6,117

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	540.5	-1.4	-	-	16	15
Dec	543.5	-1.5	548.0	542.0	16,886	63,216
Jan	545.2	-1.5	-	-	1	27
Mar	550.5	-1.5	555.0	549.0	1,644	15,205
May	554.7	-1.5	558.5	555.5	689	7,473
Jul	558.9	-1.5	560.0	560.0	1,082	5,822
Total					20,656	106,234

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	17.58	+0.28	17.68	17.28	43,349	105,361
Jan	17.33	+0.22	17.40	17.08	15,454	58,175
Feb	17.21	+0.19	17.29	17.02	5,649	24,637
Mar	17.14	+0.18	17.20	17.00	1,446	18,369
Apr	17.09	+0.17	17.12	16.98	455	12,719
May	17.04	+0.16	17.08	16.93	322	7,934
Total					74,744	338,136

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	16.25	+0.22	16.35	16.06	35,121	63,721
Jan	16.09	+0.19	16.15	15.93	15,413	42,870
Feb	15.95	+0.14	16.01	15.83	5,398	12,874
Mar	15.83	+0.11	15.90	15.74	1,769	7,143
Apr	15.76	+0.09	15.83	15.69	448	3,897
May	15.72	+0.10	15.76	15.76	610	1,559
Total					57,704	144,069

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	50.44	+0.86	50.50	49.58	13,966	18,496
Dec	50.74	+0.88	50.85	49.85	14,282	44,882
Jan	50.95	+0.81	51.10	50.90	4,381	37,885
Feb	50.55	+0.73	50.70	50.00	1,910	20,167
Mar	49.50	+0.63	49.65	49.15	831	7,631
Apr	48.20	+0.53	48.20	47.95	48	3,985
Total					35,781	154,167

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	152.25	+2.50	152.25	149.75	5,842	34,806
Dec	151.75	+2.25	152.00	149.50	6,344	24,090
Jan	151.75	+2.00	151.75	149.50	2,418	21,769
Feb	151.25	+2.00	150.00	149.50	445	6,197
Mar	150.25	+1.50	150.25	149.25	68	3,773
Apr	149.50	+1.25	148.75	148.00	320	1,641
Total					16,275	100,726

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1.830	+0.020	1.833	1.785	14,586	23,928
Jan	1.872	+0.018	1.880	1.835	2,292	24,229
Feb	1.825	+0.018	1.830	1.785	1,486	13,212
Mar	1.767	+0.014	1.767	1.746	1,229	9,816
Apr	1.712	+0.014	1.710	1.685	687	6,430
May	1.714	+0.014	1.715	1.695	390	5,965
Total					21,940	128,678

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	50.00	+0.91	50.75	49.89	8,129	15,341
Dec	49.85	+0.62	50.35	49.25	8,006	21,298
Jan	49.95	+0.57	50.30	49.45	1,852	10,413
Feb	50.30	+0.47	50.56	49.80	141	3,627
Mar	50.47	+0.44	50.75	50.15	31	-
Apr	52.90	+0.37	53.15	33.15	3	3,270
Total					18,172	59,863

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	121.50	+0.85	121.50	121.45	43	600
Jan	123.95	+0.80	124.15	123.85	136	2,262
Mar	125.85	+0.85	126.00	125.90	55	1,675
May	127.85	+0.80	128.00	127.80	121	2,237
Jul	128.60	+0.85	130.00	128.75	6	74
Sep	111.50	+1.50	-	-	-	21
Total					374	6,866

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	501.25	+2.50	503.00	499.50	14,537	57,130
Mar	510.25	+2.00	511.50	507.00	7,358	32,958
May	476.75	+0.75	478.00	475.75	739	3,561
Jul	435.25	+3.25	436.00	432.50	1,418	13,760
Sep	437.50	+2.75	437.50	-	102	1,974
Dec	445.50	+1.75	446.00	443.50	19	657
Total					24,181	110,055

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	329.50	+1.00	332.25	329.25	55,173	200,453
Mar	335.75	+1.00	338.00	335.50	27,918	180,325
May	338.25	+1.25	339.00	336.00	4,920	30,753
Jul	333.50	+0.75	336.00	333.25	7,076	45,502
Sep	297.75	+0.75	299.00	297.50	402	6,532
Dec	280.00	+0.75	281.75	279.75	2,110	20,830
Total					97,884	485,206

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	111.15	+0.95	111.10	111.00	83	172
Jan	114.55	+0.85	114.50	114.40	69	859
Mar	116.65	+0.50	116.65	116.65	10	656
May	118.75	+0.35	-	-	-	201
Sep	107.75	-	-	-	-	12
Nov	110.00	-	-	-	-	-
Total					172	1,888

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	665.25	-4.00	673.25	664.00	32,383	44,439
Jan	675.50	-4.25	684.25	675.00	18,976	67,144
Mar	684.00	-5.25	693.25	683.00	5,805	32,281
May	689.25	-5.00	698.00	689.00	1,001	11,154
Jul	692.50	-4.50	701.50	692.00	1,282	11,569
Aug	693.25	+0.25	696.50	693.00	940	264
Total					60,676	178,522

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	25.28	-0.33	25.69	25.25	11,712	33,858
Jan	25.42	-0.31	25.80	25.41	3,302	13,302
Mar	26.60	-0.38	27.05	26.60	2,819	10,307
May	26.87	-0.34	27.20	26.89	720	6,380
Jul	27.00	-0.35	27.40	27.00	852	4,053
Aug	27.03	-0.36	27.45	27.33	160	646
Total					18,669	68,432

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	206.3	-1.0	209.4	206.2	11,794	47,933
Jan	207.1	-1.0	210.2	206.8	4,191	16,550
Mar	208.2	-1.2	211.2	208.0	3,456	14,147
May	208.4	-0.7	210.7	208.2	783	5,446
Jul	209.1	-0.4	211.5	209.0	380	5,379
Aug	207.5	-0.2	209.5	207.5	105	597
Total					20,787	91,185

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	184.0	-	-	-	-	3
Mar	280.0	-	-	-	-	-
Apr	273.5	-2.0	276.0	274.0	33	1,105
May	312.5	-	-	-	-	6
Jun	380.5	-	-	-	-	-
Total					33	1,114

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	1560	+7	1570	1560	11	512
Nov	1485	+25	1495	1480	9	494
Dec	1490	+30	1485	1465	20	280
Jan	1465	+65	1485	1440	91	1,217
Apr	1500	+60	1500	1450	38	1,070
Jul	1350	+65	1350	1335	25	344
Total					209	4,035

	Close	Prev
BFI	1576	1564

FUTURES DATA
All futures data supplied by CMS.

Nuts and Seeds
1994 crop prices from Kenkko Group: $ a tonne. Iranian pistachios 28/30 raw (in shell) naturally opened (round); 1994 crop sold out; new crop 3,450 CFR/FOT MEP; 28/28 3,550 (both available December). US almonds (shelled) 23/25 NPSSR new crop price at 6,600 FAS; down slightly. US walnuts (shelled) light halves and pieces; '95 crop 5,700 FOB – firm. Indian cashews W320 (raw) 6,150 FOT Rotterdam in transit – down. Turkish Hazelnut kernels 13/15 standard 1s; '95 crop at 3,350 C&F MEP – uncertain. Despite government collapse, port strike is now postponed for two months; market very speculative. Sunflower seeds '95 crop: Kansas 22/64, long, at 840 CIF MEP; N. Dakota 20/64, long, at 750; adverse weather conditions causing extreme difficulty in forward market.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	923	+3	929	918	3,057	20,757
Mar	953	+2	959	948	1,782	32,470
May	969	+1	976	967	379	14,604
Jul	987	+3	990	983	95	4,621
Sep	1004	+1	1006	999	1,180	22,347
Dec	1022	+2	1026	1020	24	6,144
Total					6,784	112,501

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1331	+16	1333	1311	1,815	25,355
Mar	1365	+15	1368	1347	1,312	22,470
May	1386	+13	1386	1370	382	9,048
Jul	1408	+13	1395	1395	23	3,467
Sep	1432	+13	-	-	14	6,237
Dec	1459	+13	-	-	4	6,508
Total					3,550	73,186

■ COCOA (ICCO) (SDR's/tonne)

Oct 25	Price	Prev. day
Daily	944.27	943.18

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	2448	-2	2445	2400	2,151	6,297
Jan	2314	-19	2347	2300	1,996	11,393
Mar	2258	-34	2280	2246	415	5,332
May	2200	-33	2220	2195	206	2,770
Jul	2168	-40	2200	2185	38	433
Sep	2133	-47	2175	2175	1	264
Total					4,807	26,489

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	123.40	+1.65	123.75	120.75	5,088	14,586
Mar	121.40	+1.85	121.65	118.80	1,184	9,576
May	120.25	+2.75	120.25	118.05	116	2,591
Jul	119.95	+1.50	120.00	118.80	5	516
Sep	120.00	+1.25	118.50	118.50	-	315
Dec	120.00	+1.25	118.00	118.00	1	58
Total					N/A	27,860

■ COFFEE (ICO) (US cents/pound)

Oct 25	Price	Prev. day
Comp. daily	120.57	121.98
15 day average	121.97	120.00

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	13.25	-	-	-	-	-
Mar	10.90	-	-	-	-	-
May	11.95	-	-	-	-	-
Jul	11.95	-	-	-	-	-
Total					-	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	348.3	+2.5	349.0	344.5	823	6,988
Mar	328.9	-0.1	333.0	327.6	1,102	13,808
May	323.1	-1.1	326.0	322.0	261	4,230
Aug	319.3	-1.3	321.5	318.4	32	1,922
Oct	290.1	-0.3	292.0	289.0	141	2,521
Dec	287.3	-0.4	288.5	287.0	61	717
Total					2,422	30,328

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.60	-0.21	10.89	10.45	8,065	82,220
May	10.53	-0.17	10.77	10.40	20,892	20,892
Jul	10.36	-0.16	10.56	10.30	13,607	13,607
Oct	10.30	-0.15	10.48	10.29	14,449	14,449
Mar	10.25	-0.13	10.41	10.10	8,142	8,142
May	10.17	-0.06	-	-	40	40
Total					9,868	139,480

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	83.88	+0.33	84.95	83.30	4,190	24,713
Mar	83.18	-0.10	84.10	82.70	2,685	17,025
May	83.80	+0.10	84.40	83.50	610	7,580
Jul	83.60	-0.25	84.30	83.50	169	5,602
Oct	78.55	+0.10	78.60	78.50	56	1,308
Dec	75.85	-0.05	76.00	75.75	83	6,330
Total					7,793	63,576

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	118.60	+1.70	118.80	117.30	1,118	3,527
Jan	119.30	+1.50	119.45	118.25	1,302	13,737
Mar	121.80	+1.40	121.60	120.50	243	2,781
May	123.40	+1.10	123.75	123.40	42	1,341
Jul	125.40	+0.85	125.80	125.40	3	533
Sep	127.70	+1.40	127.70	127.70	3	335
Total					2,706	22,588

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Oct 26	Oct 25	month ago	year ago
2108.7	2121.6	2090.1	2104.7

■ CRB Futures (Base: 1967=100)

Oct 25	Oct 24	month ago	year ago
241.77	241.66	-	-

■ GSCI Spot (Base: 1970=100)

Oct 25	Oct 24	month ago	year ago
180.88	180.48	180.65	177.57

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	68.175	+0.400	68.250	67.850	6,024	30,828
Feb	67.350	+0.275	67.400	67.050	1,504	15,490
Apr	67.375	+0.175	67.425	67.200	888	9,324
Jun	63.500	+0.175	63.550	63.375	887	4,161
Aug	62.050	-	62.125	61.925	95	1,766
Oct	62.950	+0.100	63.050	62.900	20	531
Total					9,426	62,110

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	44.450	-0.200	44.875	44.200	2,346	12,784
Feb	46.625	-0.325	47.100	46.375	690	7,280
Apr	46.600	-0.050	46.850	46.300	206	2,721
Jun	51.875	+0.250	51.900	51.600	96	3,098
Jul	51.525	+0.125	51.700	51.350	37	1,512
Aug	50.800	+0.025	50.825	50.500	12	626
Total					3,413	28,428

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	59.975	-1.425	61.600	59.700	1,265	5,758
Mar	60.050	-1.275	61.450	59.900	126	724
May	60.950	-0.850	61.900	60.900	23	208
Jul	62.500	-0.475	62.750	61.850	19	538
Aug	60.900	-	-	-	11	57
Total					1,444	7,285

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Dec	Feb	Dec	Feb
1600	100	144	22	43
1700	44	88	64	85
1800	15	49	134	145
■ COPPER (Grade A) LME	Dec	Feb	Dec	Feb
2600	168	143	20	49
2700	99	88	50	92
2800	51	49	101	152
■ COFFEE LCE	Jan	Mar	Jan	Mar
1750	568	-	4	-
1800	520	-	6	-
1850	473	-	9	-
■ COCOA LCE	Dec	Mar	Dec	Mar
875	53	94	5	16
900	35	76	12	23
925	21	61	23	33
■ BRENT CRUDE IPE	Dec	Jan	Dec	Jan
1550	78	83	7	22
1600	44	51	15	40
1650	19	29	34	66

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Dec) +or-

		+or-
Dubai	$15.21-5.30z	-0.24
Brent Blend (dated)	$16.34-6.39	+0.305
Brent Blend (Dec)	$16.29-6.31	+0.23
W.T.I. (1pm est)	$17.61-7.63z	+0.26

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$173-175	+2
Gas Oil	$154-155	+2
Heavy Fuel Oil	$85-87	+2
Naphtha	$156-157	+1.5
Jet fuel	$172-175	+1
Diesel	$158-159	+3

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

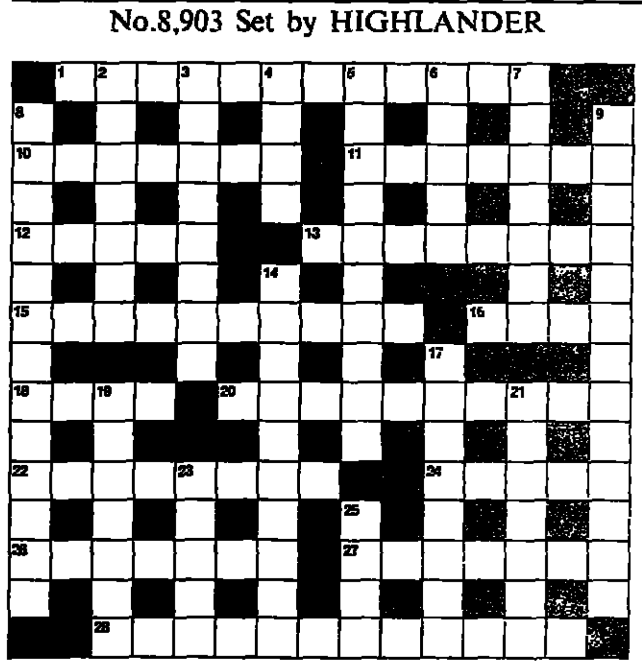
Gold (per troy oz)♣	$382.65	+0.35
Silver (per troy oz)♣	543.5c	+1.0
Platinum (per troy oz.)	$410.00	-3.0
Palladium (per troy oz.)	$134.50	-1.4
Copper (US prod.)	Unq.	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.47m	+0.09
Tin (New York)	289.5c	+5.0
Cattle (live weight)†	124.82p	-0.53*
Sheep (live weight)†♠	102.88p	+0.40*
Pigs (live weight)†	97.69p	+0.81*
Lon. day sugar (raw)	$315.5	
Lon. day sugar (wte)	$375.5	-2.90
Barley (Eng. feed)	£113.00	
Maize (US No3 Yellow)	£105.0w	
Wheat (US Dark North)	Unq	
Rubber (Nov)♥	100.00p	+0.75
Rubber (Dec)♥	100.00p	+0.75
Rubber (KL RSS No1)	372.5m	+2.0
Coconut Oil (Phil)§	$730.0u	
Palm Oil (Malay.)§	$622.5	-2.5
Copra (Phil)§	461.0y	
Soyabeans (US)	197.0	+3
Cotton Outlook'A' index	90.10c	
Wooltops (64s Super)	458p	+0.11

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Dec. u Nov/Dec.♥ w Nov. y Nov/Dec. x Oct/Dec London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week † Prices are for previous day.

JOTTER PAD

CROSSWORD

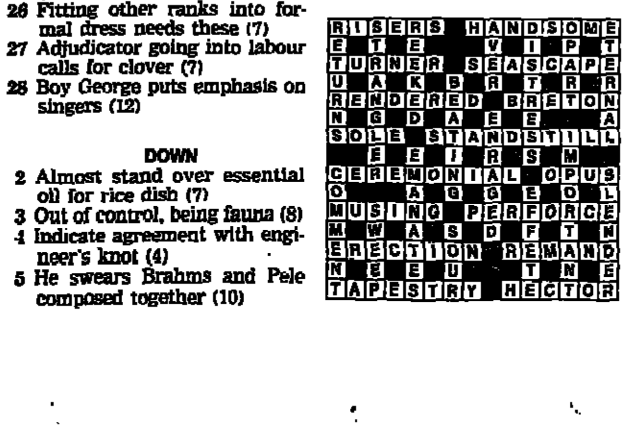
No.8,903 Set by HIGHLANDER



ACROSS
1 Project planning stage is attracting directors (7,5)
10 Was in front after players made chess move (7)
11 A competitor reported to be coming (7)
12 Praise old 75% levy (5)
13 Distributor put price on text-book (8)
15 Retail outlet more appropriate for this furnishing specialist (10)
16 Make an impression with one note each (4)
18 Uncovered except for end of nose (4)
20 Tilted badly against amateurs (10)
22 Gum on cheek? Use cosmetic (8)
24 Pass on bend after a farewell (5)
26 Fitting other ranks into formal dress needs these (7)
27 Adjudicator going into labour calls for clover (7)
28 Boy George puts emphasis on singers (12)

DOWN
2 Almost stand over essential oil for rice dish (7)
3 Out of control, being fauna (8)
4 Indicate agreement with engineer's knot (4)
5 He swears Brahms and Pele composed together (10)
6 See eye to eye with a European in the main (5)
7 Small number not included in bonus spilt (7)
8 Icy slab cities shift for ease of approach (13)
9 Is your flat lit unconventionally, in a coquettish way? (13)
14 They run up and down buildings – it's a way to publicise trials (10)
17 Tars seem all at sea in ships (8)
19 Traveller is not truthful with answers (7)
21 Number one leads a little offensive (7)
23 Source of irritation, however short, is pursued by the navy (5)
25 Celebrity player taking part in last Arsenal match (4)

Solution 8,902



INTERNATIONAL CAPITAL MARKETS

Bunds fall on news of Yeltsin's second heart attack

By James Harding and Richard Lapper in London and Lisa Bransten in New York

Two surprises moved the markets yesterday: the Italian government came back from the brink, prompting a strong rise in Italian government bonds. And reports that Mr Boris Yeltsin, the Russian president, had suffered his second heart attack in a year shook the German market.

When Mr Lamberto Dini, the prime minister, promised to resign by the end of the year to ensure ratification of the 1996 budget, he saved his government from a vote of no confidence.

That surprised the markets which had already discounted his government's collapse and further budgetary delay, lifting both the Italian lira and Italian bonds.

Bunds fell on the news that Mr Yeltsin had been rushed to hospital, reflecting the market's traditional concerns about Germany's proximity to Russia and the scale of the German stake in the success of former Soviet economies.

Underlying confidence in European government bonds, which had been in evidence in the morning session, helped bunds to recover late in the day to end just a touch below Wednesday's close.

GOVERNMENT BONDS

Gilts remained in buoyant mood, enjoying the hangover from Wednesday's successful auction and positive market sentiment to UK government paper.

■ Along with his imminent resignation, Mr Dini pledged to push through the budget and press for changes to media access laws – nearly everything the market was looking for.

The relief at Mr Dini's speech, which ensured he defeated yesterday's vote of no-confidence, was measured in rising BTP prices.

The yield spread of the 10-year benchmark bond over German bunds narrowed to 558 points.

Mr Luca Jellinek, bonds strategist at Paribas Capital Markets, explained the turnround: "People had counted on the government folding and that did not happen, so there were big gains in BTPs."

Analysts suggested Italian bonds might still rise further. Mr Robin Kidman, senior fixed-income analyst at Technical Data, suggested 10-year bond spreads over bunds could contract to 535 points.

However, Mr Kidman, like most other analysts, tempered his optimism for the very short term. The underlying issue of political instability has not gone away: "The fact remains that elections will be held in the beginning of next year, strength will only be temporary in the high yielders."

■ As was the case even before the fall of the Berlin Wall, a tremor in Moscow rattled the German markets.

After a generally solid morning in the bunds market, reports of Mr Yeltsin's illness pushed bund futures down nearly 0.50 in early afternoon trading.

However, residual confidence in the bund market and the news that Mr Yeltsin's attack was not as bad as the one in July helped a modest recovery in late afternoon trading.

After the December Liffe contract settled at 96.37 following Wednesday's close of 96.39, analysts suggested today's trade would move on news of Mr Yeltsin's progress.

■ Gilts maintained their gains over the week on a combination of the afterglow from Wednesday's successful auction, support from a firm US Treasuries market and money moving out of Germany on concerns over Russia.

The December Liffe contract moved up $\frac{1}{16}$ to close at $106\frac{1}{32}$.

Gilts traders will be watching the US GDP figures closely today. At the end of a strong week for UK government bonds, some analysts forecast that without a strong performance from Treasuries on the data, gilts will be subject to profit-taking.

■ US Treasury prices were lower but off their weakest levels of the day as the market maintained a generally bullish tone in spite of surprisingly strong figures on durable goods orders.

In early afternoon trading in the benchmark 30-year Treasury was $\frac{1}{16}$ lower at $107\frac{1}{16}$ to yield 6.339 per cent. At the short end the two-year note was unchanged at 100, to yield 5.608 per cent.

Most economists had forecast a slight decline in the number of durable goods orders on the heels of August's strong figures. Instead, the Commerce department said orders rose 3 per cent in September, and it revised the August figure to 5.1 per cent from the initially reported 4.9 per cent.

Still, several economists said the economy was not as strong as the headline from the durable goods figure suggested. Excluding the volatile transportation component, durable goods orders were up by just 0.6 per cent.

Bond prices staged a short decline on the news, with the long-bond dropping ¾ of a point, but the lower prices brought buyers back into the market helping prices to recover quickly from their session lows.

Strength in the dollar helped contribute to the overall bullish tone of the market.

■ Brady bonds fell sharply yesterday amid reports of sales by European banks. Argentine floating rate bonds – one of the most widely traded Brady instruments – fell by 2¼ cents to close at a bid price in London of $0.58. Other widely traded Latin Brady paper, Mexican par bonds and Brazilian C bonds fell by ⅞ and 1⅝ respectively, while the price of Russian debt paper traded on the secondary market also lost ground.

Canadian prices recover ahead of Quebec vote

By Richard Lapper

Canadian bonds yesterday regained some of the ground they have lost in recent days, with a sharp rise in prices underlining uncertainty ahead of Monday's referendum in Quebec.

The price rise saw the yield spread of Canadian 10-year bonds over US Treasuries contract sharply to 179 basis points in morning trade yesterday, some 9 basis points less than Wednesday's close.

Last week, opinion polls indicating a narrow lead for those in favour of independence triggered a sell-off with yield spreads ballooning out to more than 200 basis points, the highest level for more than a year.

Foreign investors, who own about 35 per cent of some C$243bn in Canadian government bonds, appear to have been surprised by the strength of the potential vote in favour of independence for Quebec.

"This is all down to the prominence of Mr Lucien Bouchard [the leader of the separatist block within the federal parliament] in the campaign," said Mr Brian Hilliard, a director of fixed income at Société Générale Strauss Turnbull. "Over the last week-and-a-half the opinion polls have turned in favour of the 'yes' vote. This has had a pronounced effect on the market."

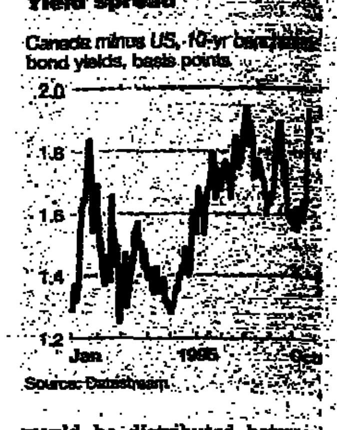
Mr Michael Dell, analyst at UBS, said that before the recent spate of polls "spread narrowing" trades had been very popular. As a result relatively few foreign investors – about one third of the total according to analysts – have taken action either to reduce or hedge their exposure to the market and were wrong-footed by the widening in the spread.

In spite of yesterday's bounce, the market remains "very worried, very confused and very nervous", says Mr David Coleman, senior economist at CIBC Wood Gundy.

A "yes" vote could trigger an immediate widening of the yield spread over Treasuries, possibly to as high as 275 basis points, with the market focusing on two issues in the medium term: the Canadian dollar and the conduct of monetary policy, and the way in which the federal debt

Yield spread

Canada minus US, 10-yr benchmark bond yields, basis points



Source: Datastream

would be distributed between an independent Quebec and the federal government on the other.

By contrast a "no" vote would be likely to lead investors to focus on Canada's economic fundamentals, which include inflation of less than 3 per cent and recent progress on the fiscal front both at provincial and national level, and explain the considerable premium at which its bonds trade relative to the European high yielders.

Yield spreads would contract, possibly quite sharply, analysts say. Mr Hilliard predicts the spread could narrow to "130 within a month and 110 within three months. This is a market which really moves when it goes".

US power utility aims to raise $1.5bn via two-tranche issue

By Conner Middelmann

The Tennessee Valley Authority, the US power utility, is about to return to the eurobond market after its successful inaugural global 10-year bond in June, which was launched at $1.5bn and quickly increased to $2bn.

This time, TVA plans to issue $1.5bn of global bonds in a two-tranche structure: $1bn of five-year bonds and $500m of 30-year bonds.

While it could have raised the whole amount through a five-year issue, TVA was keen to extend its yield curve in the eurobond market. "Two points makes a line, three points makes a curve," said Mr David Smith, TVA's chief financial officer. "In combination with our 10-year deal we will have set five-, 10- and 30-year benchmarks which will be beneficial to us for future funding."

The utility plans to borrow some $3bn in the fiscal year that started in September. The proceeds of the forthcoming deal will be used to refinance existing debt.

INTERNATIONAL BONDS

TVA, established by Congress in 1933 and wholly-owned by the US government, has appointed Lehman Brothers as the book-runner on the offering, with Merrill Lynch as joint lead manager. The bonds are set to be launched on Monday and priced on Tuesday.

Spread talk has been in the region of 18 to 20 basis points over Treasuries for the five-year tranche and 35 to 40 basis points for the 30-year portion. Mr Smith said some 70 per cent of the five-year bonds and about half of the 30-year tranche would be targeted at accounts outside the US, although some dealers said most of the longer tranche was likely to be placed in the US.

TVA was recently ranked by Electric Light & Power, a US utility magazine, among the best of the 100 largest utilities in the country in terms of production costs and average rates for electricity.

The day's other highlight was a $250m five-year offering from Wal-Mart Stores, the largest US retailer. According to lead manager Goldman Sachs, the bonds, priced at a spread over Treasuries of 23 basis points, were placed within 45 minutes, with a significant portion sold to Swiss investors.

Elsewhere, Irish Life Homeloans issued I£100m of mortgage-backed floating-rate bonds, the first mortgage securitisation in Ireland.

The paper, which was in three tranches, was placed mainly among non-Irish European banks, said lead manager NatWest Markets.

● Standard & Poor's, the rating agency, has raised its senior debt ratings on General Motors and two of its units, Hughes Electronics and General Motors Acceptance Corp, to A- from BBB+. Consolidated debt outstanding is $78bn.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Wal-Mart Stores	250	6.125	99.995R	Nov.2000	0.275R	+23(WI 5yr)	Goldman Sachs International
AC International Finance(a)§	142	zero	70.381	Dec.2000	2.50	-	Jardine Fleming
Investec O'seas Finance(b)§	100	6.375#	100.00	Nov.2002	2.50	-	Citibank International
UBAF(c)‡	100	(c1)	99.46R	Nov.2000	0.20R	-	Nikko Europe
YEN							
Soc. Gén. Acceptance*	50bn	2.00	101.92	Oct.1996	0.125	-	Morgan Stanley & Co. Intl.
Kirin Intl.Finance(Neths.)*	10bn	0.50	92.50	Nov.2000	0.20	-	Mitsubishi Finance Intl.
STERLING							
IRISH (No.1), Class A1(d1)‡	45	(d2,s)	99.83R	Sep.2025	0.08R	-	NatWest Capital Markets
IRISH (No.1), Class A2(d3)‡	50	(d4,s)	99.51R	Oct.2025	0.20R	-	NatWest Capital Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Exchangeable into Ayala Land "B" shares at pesos 35. FX: 25.959 pesos/$. Redemption price: 100%. Callable from Nov.98, subject to 140% hurdle, at 95% in yr 4 and 100% in yr 5. b) Conversion price: R80. FX: 3.6352R/$. Redemption price: 110%. Callable from 30/11/97, subject to 130% hurdle, at par. Greenshoe available. c) Union de Banques Arabes et Françaises. c1) 3-mth Libor +37½bp. d) Ireland Residential Securitised Home Mortgages. d1) Callable on coupon dates from Sep.03 at par. Expected average life: 2.67 yrs. d2) 3-mth Dibor +12bp to Sep.03 and +40bp thereafter. d3) Callable on coupon dates from Oct.03 at par. Expected average life: 7.74 yrs. d4) 3-mth Dibor +19bp Sep.03 and +55bp thereafter. d5) Class B of I£5m was privately placed. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	93.2700	+0.870	8.53	8.39	8.59
Austria		6.875	06/05	99.4500	–0.070	6.95	6.94	6.83
Belgium		6.500	03/05	96.5000	+0.050	7.01	7.01	6.97
Canada *		8.750	12/05	106.3000	+0.250	7.83	7.62	7.95
Denmark		7.000	12/04	94.5800	–0.020	7.85	7.83	7.71
France	BTAN	7.750	04/00	103.8750	+0.120	6.71	6.79	6.53
	OAT	7.750	10/05	102.1800	+0.040	7.43	7.51	7.24
Germany Bund		6.500	10/05	100.1700	–0.090	6.47	6.50	6.50
Ireland		6.250	10/04	88.5000	+0.150	8.10	8.18	8.06
Italy		10.500	04/05	93.2800	+1.140	11.69†	11.53	10.99
Japan	No 129	6.400	03/00	119.6440	–0.130	1.90	1.48	1.69
	No 174	4.600	09/04	112.9640	+0.720	2.76	2.78	2.78
Netherlands		7.000	06/05	103.2100	+0.010	6.53	6.56	6.52
Portugal		11.875	02/05	109.3500	-	11.25	11.18	11.02
Spain		10.150	01/06	93.0000	+0.020	10.91	10.80	10.62
Sweden		8.000	02/05	80.4960	–0.210	9.21	9.22	9.44
UK Gilts		8.000	12/00	102–06	+2/32	7.47	7.53	7.37
		8.500	12/05	103–06	+3/32	8.03	8.08	7.87
		9.000	10/08	108–25	+4/32	8.14	8.19	7.95
US Treasury *		6.500	08/05	103–17	–7/32	6.02	5.98	6.16
		6.875	08/25	107–06	–8/32	6.33	6.31	6.52
ECU (French Govt)		7.500	04/05	98.4700	–0.300	7.72	7.72	7.51

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest

		Treasury Bills and Bond Yields			
Prime rate	8¾	One month	5.42	Two year	5.82
Broker loan rate	7½	Two month	5.49	Three year	5.69
Fed.funds	5$\frac{13}{16}$	Three month	5.39	Five year	5.79
Fed.funds at intervention	-	Six month	5.57	10-year	6.01
		One year	5.53	30-year	6.33

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	115.84	115.98	+0.06	116.16	115.78	155,744	106,707
Mar	115.42	115.50	+0.10	115.66	115.40	1,523	5,597
Jun	115.48	115.58	–0.04	115.48	115.48	2	2,171

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
114	-	-	-	-	0.24	0.92
115	0.98	1.43	-	-	0.44	1.25
116	-	0.80	1.24	0.02	0.82	-
117	-	0.36	0.85	-	1.34	-
118	-	0.11	0.52	-	2.17	-

Est. vol. total, Calls 23,650 Puts 32,556 . Previous day's open int., Calls 149,867 Puts 164,780.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.30	96.37	-0.02	96.55	96.07	168376	201696
Mar	95.71	95.78	-0.02	95.90	95.65	1332	5478

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
9600	0.76	0.65	0.86	1.01	0.39	0.87	1.08	1.23
9650	0.48	0.44	0.64	0.78	0.61	1.16	1.36	1.50
9700	0.27	0.29	0.47	0.60	0.90	1.51	1.69	1.82

Est. vol. total, Calls 17566 Puts 13573. Previous day's open int., Calls 166273 Puts 143015

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.75	101.33	+1.36	101.75	99.62	80520	48831
Mar	100.80	100.98	+1.34	101.05	100.80	131	700

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
10100	1.37	2.44	1.04	2.46
10150	1.10	2.21	1.27	2.73
10200	0.88	1.99	1.55	3.01

Est. vol. total, Calls 7744 Puts 8636. Previous day's open int., Calls 46966 Puts 47899

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	88.35	88.60	–0.01	88.64	88.13	54,519	32,874
Mar	88.20	88.40	–0.25	88.20	88.20	7	168

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	105-30	106-07	+0-06	106-18	105-29	88569	104686
Mar	105-19	105-22	+0-07	105-20	105-19	115	453

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
106	0-62	1-05	1-30	1-46	0-48	1-25	1-50	2-02
107	0-33	0-43	1-04	1-19	1-19	1-63	2-24	2-39
108	0-15	0-26	0-47	0-61	2-01	2-46	3-03	3-17

Est. vol. total, Calls 3592 Puts 3486. Previous day's open int., Calls 31961 Puts 26432

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	87.00	86.98	+0.02	87.10	86.88	2,683	8,899

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	117–09	116–21	–0–18	117–12	116–21	326,087	391,032
Mar	116–28	116–10	–0–18	117–01	116–10	2,388	29,624
Jun	116–12	116–00	–0–09	116–16	115–27	723	4,930

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	121.45	-	-	121.66	121.30	4599	0
Mar	120.35	-	-	120.36	120.13	729	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thu Oct 26	Day's change %	Wed Oct 25	Accrued interest	xd adj. ytd
1 Up to 5 years (22)	121.03	+0.03	120.99	1.24	9.72
2 5-15 years (21)	145.33	+0.16	145.10	1.92	10.32
3 Over 15 years (9)	161.27	+0.30	160.78	2.83	10.45
4 Irredeemables (6)	179.99	+0.59	178.93	–0.18	13.47
5 All stocks (58)	140.87	+0.15	140.66	1.84	10.23

	Low coupon yield Oct 26	Oct 25	Yr. ago	Medium coupon yield Oct 26	Oct 25	Yr. ago	High coupon yield Oct 26	Oct 25	Yr. ago
5 yrs	7.54	7.55	8.74	7.54	7.55	8.76	7.63	7.65	8.94
15 yrs	8.13	8.16	8.64	8.18	8.20	8.77	8.26	8.30	9.00
20 yrs	8.18	8.21	8.59	8.22	8.25	8.77	8.30	8.33	8.89
Irred.†	8.30	8.35	8.68						

Index-linked					
6 Up to 5 years (1)	193.01	+0.01	192.98	-	8.37
7 Over 5 years (11)	185.39	+0.19	185.05	0.78	4.45
8 All stocks (12)	185.43	+0.18	185.10	0.76	4.54

	Inflation 5% Oct 26	Oct 25	Yr. ago	Inflation 10% Oct 26	Oct 25	Yr. ago
Up to 5 yrs	3.27	3.26	4.00	2.12	2.11	2.82
Over 5 yrs	3.68	3.70	3.91	3.48	3.49	3.72

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Oct 26	Oct 25	Oct 24	Oct 23	Oct 20	Yr ago	High*	Low*
Govt. Secs. (UK)	93.35	93.19	92.57	92.67	92.75	90.58	95.51	90.22
Fixed Interest	111.64	110.86	110.84	110.88	111.35	108.84	114.66	108.77

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Oct 25	Oct 24	Oct 23	Oct 20	Oct 19
Gilt Edged bargains	117.0	89.9	101.6	78.3	83.1
5-day average	94.0	88.4	89.7	87.0	88.8

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on October 26

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 5 97	1000	98⅞	99⅛		5.93
Abbey Natl Treasury 6½ 03	1000	99⅝	99⅞		6.56
ABN Amro Bank 7¼ 05	1000	104	104¼		6.79
African Dev Bk 7¾ 23	500	102⅝	103⅛		7.15
Alberta Province 7⅝ 98	1000	104½	104¾	+⅛	5.85
[illegible]					
Sweden 8 97	2500	103⅞	105½		4.63
United Kingdom 7¼ 97	5500	104⅞	105		4.53
Volkswagen Intl Fin 7 03	1000	101½	101⅝	+⅛	6.73
World Bank 0 15	2000	26⅛	25⅞	+⅛	6.89
World Bank 5⅞ 03	3000	95½	95½	+¼	6.45
[illegible]					
Abbey Natl Treasury 8 03 £	1000	97¾	98	+¼	8.40
Alliance Leics 11⅞ 97 £	100	105¾	105⅞		7.21
British Land 8⅞ 23 £	150	91⅛	91½	+⅛	10.05
Denmark 6¾ 98 £	800	98¼	98½		7.44
EIB 8 03 £	1000	98⅞	99⅛	+⅛	8.19
Halifax 10⅜ 97 £	100	104	104⅜		7.10
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month§ above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	1995 High	1995 Low
Shorts" (Lives up to Five Years)						
Treas 14pc 1996	13.77	6.59	101$\frac{21}{32}$		106⅞	101$\frac{21}{32}$
15¼pc 1996‡‡	14.59	6.51	104½xd		109⅝	104½
Exch 13¼pc 1996‡‡	12.79	6.62	103⅝xd	–$\frac{1}{32}$	107¼	103⅝
[illegible]						
Treas 12½pc 2003-5	9.89	8.02	126$\frac{13}{32}$xd	+$\frac{1}{8}$	128$\frac{13}{32}$	119$\frac{13}{32}$
Treas 8½pc 2005‡‡	8.23	8.02	103$\frac{9}{32}$	+$\frac{3}{32}$	105$\frac{19}{32}$	97⅛
7½pc 2006‡‡	7.79	8.02	96¼	+$\frac{3}{32}$	96$\frac{13}{32}$	94$\frac{13}{32}$
7¾pc 2006‡‡	7.94	8.09	97⅝	+⅛	99$\frac{11}{32}$	92⅛
[illegible]						

Index-Linked	(b)	(1)	(2)	Price £	+ or –	1995 High	1995 Low
2pc '96	(67.9)	0.31	3.25	213$\frac{1}{4}$	——	213$\frac{1}{4}$	201$\frac{1}{4}$
4⅝pc '98‡‡	(135.6)	2.11	3.26	111$\frac{7}{16}$xd	——	112$\frac{1}{4}$	108$\frac{7}{8}$
2½pc '01	(78.3)	3.11	3.61	176$\frac{1}{8}$	+$\frac{1}{8}$	177$\frac{13}{32}$	165$\frac{13}{32}$
[illegible]							

Other Fixed Interest

[illegible]

* "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock.

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CURRENCIES AND MONEY

MARKETS REPORT

Yeltsin scare prompts knee-jerk market response

By Philip Gawith

Foreign exchanges yesterday had a busy day with volatile trade seen in the dollar, Italian lira and Mexican peso.

The lira dominated during early European business as the market took heart from political developments which appeared to ensure the passage of the 1996 budget. It was later superseded by news of the hospitalisation of the Russian president, Mr Boris Yeltsin.

This provided traders with the excuse to indulge in a favourite ritual on such occasions, namely selling the D-Mark heavily for an hour, allowing it to recover its losses, then proceeding with business as usual.

The dollar spiked up as high as DM1.4115 in the aftermath of the Yeltsin news, but later gave back all these gains to trade around DM1.3930 in early afternoon New York, little changed from Wednesday. Against the yen it was trading around Y101.40.

Ahead of the no-confidence vote in Italy, which prime minister Lamberto Dini was expected to win, the Lira closed in London at L1,143 from L1,159. It had earlier reached an intraday high of L1,135.

The market's optimism reflected the view that the twin dangers of early elections and failure of the 1996 budget had probably been avoided. The lira was unmoved around L1,145 when news later emerged that the no-confidence vote had failed.

Elsewhere, the focus reverted to Mexico, where the peso suffered its largest single day fall since March. At one stage the 48 hour peso was down by 59 centavos, at 7.35 pesos to the dollar.

■ Pound in New York

Oct 26	Latest	Prev. close
£ spot	1.5785	1.5800
1 mth	1.5774	1.5789
3 mth	1.5753	1.5758
1 yr	1.5635	1.5655

Sterling had an uneventful day, with the trade weighted index finishing unchanged at 83.7. It closed at DM2.2063, from DM2.2011, and $1.5741 from $1.5795.

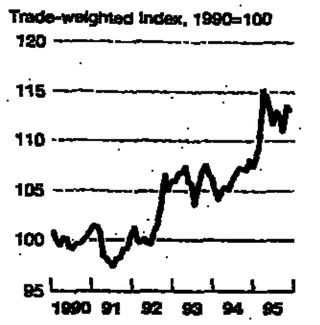
■ The dollar's response to the Yeltsin news was described by Mr David Buchen, managing director of foreign exchange at Citibank in New York, as a "mini-Gorbachev spike. What went up came right back down."

It was a familiar scene, whose tenuous logic resides in the view that it cannot be good for Germany to have such uncertainties in its back yard. Mr Malcolm Barr, economist at Chemical Bank in London, explained, euphemistically, that "the market does not necessarily have a sophisticated view of what it means."

He said the Yeltsin episode "had been seized upon by a market that was inclined to be getting long of the dollar anyway."

D-Mark

Trade-weighted index, 1990=100



Source: Bank of England

Aside from the short-term froth, Mr Buchen said there was "nothing going on with the dollar, except the budget deficit." He said the market was being driven by D-Mark strength in Europe, and yen weakness. He said the market did not appear to have fully factored in that one of the US's twin-deficits was likely to be extinguished.

Mr Jonathan Wilmot, economist at CS First Boston in London, made a similar point, saying it was the "remarkable situation in which the leading hard currency nations are all trying to stabilise or weaken their exchange rates at the same time.....rather than any immediate prospect of a lower US trade deficit or tighter Fed policy which justifies bullish forecasts for the dollar."

■ It was ironic that Mexico should re-enter the spotlight at a time of great nervousness in Canada. Mr Dave Abramson, analyst at the Bank Credit Analyst Research Group in Montreal, said there were parallels between the situations. When the peso first came under pressure last December, foreigners were actually buying while locals were selling.

Similarly, recent volatility in the Canadian dollar, which was quite stable yesterday, was a function of domestic investor selling. Foreigners, he said, were mostly sitting tight, expecting the separatists to be defeated. If they were wrong, said Mr Abramson, then a tidal wave of pent-up selling could ensue.

Mr Buchen said his theory of the sell-off in the peso was that investors, who had had a good year, and did not want a fourth quarter surprise of the sort Mexico provided last year, were cutting their positions. "Most funds have had a good year. Why hang around Mexico?" he said.

■ The Bank of England provided £1.132bn towards clearing a £1.115bn money market shortage. Three month LIBOR traded unchanged at $6\frac{23}{32}$ per cent.

■ OTHER CURRENCIES

Oct 26	£	$
Czech Rp	41.0238 - 41.0756	26.0700 - 26.0880
Hungary	206.551 - 208.748	131.260 - 131.310
Iran	4723.50 - 4720.80	3000.00 - 3000.00
Kuwait	0.4719 - 0.4724	0.2999 - 0.3000
Poland	3.8388 - 3.8434	2.4395 - 2.4410
Russia	7105.72 - 7106.37	4513.00 - 4516.00
U.A.E.	5.7795 - 5.7831	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Oct 26		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.5304	+0.0373	220 - 387	15.5393	15.4394	15.6	2.3	15.4414	2.3	-	-	107.5
Belgium	(BFr)	45.3484	+0.0641	039 - 928	45.6640	45.1190	45.2534	2.5	45.0634	2.5	44.3284	2.2	110.3
Denmark	(DKr)	8.5715	+0.0177	667 - 763	8.6138	8.5290	8.5639	1.1	8.5473	1.1	8.4848	1.0	110.4
Finland	(FM)	6.6591	+0.0279	513 - 669	6.7180	6.6200	6.6547	0.8	6.6485	0.7	-	-	88.2
France	(FFr)	7.7530	+0.0155	468 - 591	7.7706	7.7199	7.7599	-1.1	7.7655	-0.6	7.7601	-0.1	109.2
Germany	(DM)	2.2063	+0.0052	052 - 074	2.2216	2.1935	2.2012	2.8	2.1918	2.6	2.1508	2.5	113.2
Greece	(Dr)	365.140	+0.654	934 - 347	368.631	361.523	-	-	-	-	-	-	67.2
Ireland	(I£)	0.9741	+0.0006	732 - 749	0.9754	0.9710	0.9733	1.0	0.972	0.9	0.9688	0.5	97.6
Italy	(L)	2521.24	-30.84	933 - 314	2554.08	2506.89	2528.49	-3.5	2543.39	-3.5	2611.54	-3.6	69.5
Luxembourg	(LFr)	45.3484	+0.0641	039 - 928	45.6640	45.1190	45.2534	2.5	45.0634	2.5	44.3284	2.2	110.3
Netherlands	(Fl)	2.4711	+0.0063	696 - 726	2.4850	2.4577	2.4646	3.1	2.4537	2.8	2.4075	2.6	110.3
Norway	(NKr)	9.7859	+0.0419	807 - 910	9.8564	9.7198	9.7735	1.5	9.7516	1.4	9.6761	1.1	99.0
Portugal	(Es)	233.463	+0.706	318 - 609	235.313	232.002	234.003	-2.8	235.223	-3.0	-	-	95.5
Spain	(Pta)	192.514	+1.086	420 - 609	193.199	191.337	193.014	-3.1	193.954	-3.0	198.354	-3.0	81.0
Sweden	(SKr)	10.4612	+0.0332	523 - 701	10.5040	10.3872	10.4634	-0.3	10.488	-0.3	10.4913	-0.3	85.8
Switzerland	(SFr)	1.7933	+0.0006	920 - 946	1.7963	1.7862	1.7862	4.8	1.7743	4.2	1.7214	4.0	116.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.7
Ecu	-	1.2074	+0.001	066 - 082	1.2123	1.2037	1.2063	1.1	1.2041	1.1	1.1947	1.1	-
SDR†	-	1.05131	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5738	-0.0055	733 - 743	1.5794	1.5703	-	-	-	-	-	-	-
Brazil	(R$)	1.5131	-0.0052	125 - 137	1.5282	1.5100	-	-	-	-	-	-	-
Canada	(C$)	2.1493	-0.0087	483 - 503	2.1599	2.1449	2.1504	-0.6	2.1524	-0.6	2.1562	-0.3	83.7
Mexico	(New Peso)	10.9318	+0.1991	050 - 585	10.9586	10.7009	-	-	-	-	-	-	-
USA	($)	1.5741	-0.0054	736 - 745	1.5796	1.5708	1.5731	0.8	1.571	0.8	1.5592	0.9	83.2
Pacific/Middle East/Africa													
Australia	(A$)	2.0836	-0.0257	823 - 849	2.0855	2.0778	2.0849	-0.7	2.0876	-0.8	2.1025	-0.9	86.6
Hong Kong	(HK$)	12.1713	-0.0425	674 - 751	12.2139	12.1472	12.1678	0.3	12.1554	0.5	12.1218	0.4	-
India	(Rs)	55.9575	-0.1938	628 - 522	56.4760	55.8440	-	-	-	-	-	-	-
Israel	(Shk)	4.7701	-0.02	645 - 756	4.7912	4.7335	-	-	-	-	-	-	-
Japan	(Y)	160.238	+0.235	114 - 363	160.370	159.430	159.323	6.9	157.713	6.3	150.788	5.9	140.7
Malaysia	(M$)	3.9865	-0.0028	946 - 984	4.0074	3.9806	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3960	-0.0127	940 - 980	2.3991	2.3910	2.4019	-3.0	2.4112	-2.5	2.4368	-1.7	101.0
Philippines	(Peso)	40.9254	-0.0863	507 - 000	41.0060	40.8500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9035	-0.0204	016 - 053	5.9241	5.8914	-	-	-	-	-	-	-
Singapore	(S$)	2.2300	-0.0097	285 - 314	2.2359	2.2262	-	-	-	-	-	-	-
South Africa	(R)	5.7221	-0.019	192 - 249	5.7446	5.7117	-	-	-	-	-	-	-
South Korea	(Won)	1205.33	-3.54	491 - 575	1210.39	1202.92	-	-	-	-	-	-	-
Taiwan	(T$)	42.4301	-0.1019	132 - 469	42.5786	42.3472	-	-	-	-	-	-	-
Thailand	(Bt)	39.5402	-0.0895	210 - 593	39.6480	39.4500	-	-	-	-	-	-	-

† Rates for Oct 25. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	9.8665	+0.0576	640 - 690	9.8740	9.7860	9.8514	1.8	9.8213	1.8	9.712	1.6	107.7
Belgium	(BFr)	28.8100	+0.14	900 - 300	29.0080	28.6000	28.769	1.7	28.69	1.7	28.39	1.5	110.0
Denmark	(DKr)	5.4455	+0.03	440 - 470	5.4795	5.4023	5.4463	-0.2	5.442	0.3	5.4515	-0.1	109.7
Finland	(FM)	4.2306	+0.0323	268 - 343	4.2679	4.1944	4.2302	0.1	4.2291	0.1	4.2246	0.1	87.8
France	(FFr)	4.9255	+0.0268	230 - 280	4.9435	4.8945	4.934	-2.1	4.944	-1.5	4.9655	-0.8	109.0
Germany	(DM)	1.4017	+0.0081	014 - 020	1.4115	1.3900	1.3995	1.9	1.3951	1.9	1.3766	1.8	112.8
Greece	(Dr)	231.975	+1.215	910 - 040	234.200	228.870	233.7	-8.9	236.9	-8.5	250.375	-7.9	66.9
Ireland	(I£)	1.6160	-0.0065	150 - 170	1.6250	1.6110	1.6162	-0.1	1.6163	-0.1	1.6228	-0.4	-
Italy	(L)	1601.75	-14	100 - 250	1618.53	1593.00	1608.5	-5.1	1620.55	-4.7	1677.75	-4.7	68.1
Luxembourg	(LFr)	28.8100	+0.14	900 - 300	29.0080	28.6000	28.769	1.7	28.69	1.7	28.39	1.5	110.0
Netherlands	(Fl)	1.5699	+0.0094	694 - 704	1.5814	1.5574	1.5673	2.0	1.5622	2.0	1.5422	1.8	109.7
Norway	(NKr)	6.2170	+0.048	155 - 185	6.2620	6.1569	6.2132	0.7	6.207	0.6	6.197	0.3	98.4
Portugal	(Es)	148.320	+0.96	270 - 370	149.500	147.190	148.785	-3.8	149.795	-4.0	154.42	-4.1	95.8
Spain	(Pta)	122.305	+1.11	280 - 330	122.900	121.300	122.685	-3.7	123.455	-3.8	126.95	-3.8	81.1
Sweden	(SKr)	6.6461	+0.044	423 - 498	6.6754	6.5836	6.6635	-3.2	6.7001	-3.3	6.8686	-3.3	85.4
Switzerland	(SFr)	1.1393	+0.0044	388 - 398	1.1432	1.1315	1.1357	3.8	1.1296	3.4	1.1018	3.3	115.7
UK	(£)	1.5741	-0.0054	736 - 745	1.5796	1.5708	1.5731	0.8	1.571	0.8	1.5592	0.9	83.1
Ecu	-	1.3037	-0.0056	032 - 042	1.3108	1.2962	1.3041	-0.4	1.3048	-0.3	1.3071	-0.3	-
SDR†	-	0.68526	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9988	-	998 - 999	0.9999	0.9996	-	-	-	-	-	-	-
Brazil	(R$)	0.9613	-	612 - 614	0.9680	0.9610	-	-	-	-	-	-	-
Canada	(C$)	1.3655	-0.0008	652 - 657	1.3700	1.3602	1.3671	-1.5	1.3702	-1.4	1.3825	-1.2	82.5
Mexico	(New Peso)	6.9450	+0.15	300 - 600	6.9850	6.9250	6.9473	-0.4	6.9505	-0.3	6.9553	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	93.9
Pacific/Middle East/Africa													
Australia	(A$)	1.3236	-0.0117	233 - 242	1.3253	1.3196	1.3254	-1.6	1.329	-1.6	1.3487	-1.9	89.4
Hong Kong	(HK$)	7.7325	-0.0002	322 - 327	7.7328	7.7320	7.734	-0.2	7.738	-0.2	7.7562	-0.3	-
India	(Rs)	35.5500	-	000 - 000	35.8000	35.4000	35.7	-5.1	36.005	-5.1	37.475	-5.4	-
Israel	(Shk)	3.0305	-0.0022	278 - 331	3.0388	3.0031	-	-	-	-	-	-	-
Japan	(Y)	101.800	+0.5	750 - 850	101.950	101.070	101.305	5.8	100.385	5.6	98.51	5.2	141.8
Malaysia	(M$)	2.5390	+0.007	385 - 395	2.5400	2.5306	2.539	0.0	2.5394	-0.1	2.547	-0.3	-
New Zealand	(NZ$)	1.5221	-0.0028	214 - 230	1.5246	1.5186	1.5262	-3.2	1.5337	-3.0	1.5584	-2.4	-
Philippines	(Peso)	26.0000	+0.035	600 - 400	26.0400	25.9600	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7506	3.7504	3.7511	-0.2	3.7519	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4167	-0.0013	162 - 172	1.4180	1.4135	1.4133	2.9	1.407	2.8	1.3822	2.4	-
South Africa	(R)	3.6353	+0.0005	345 - 360	3.6373	3.6345	3.6606	-8.3	3.7106	-8.3	3.9418	-8.4	-
South Korea	(Won)	765.750	+0.4	700 - 800	766.900	765.600	768.75	-4.7	772.25	-3.4	790.75	-3.3	-
Taiwan	(T$)	26.9560	+0.0285	530 - 590	26.9700	26.9490	26.976	-0.9	27.016	-0.9	-	-	-
Thailand	(Bt)	25.1200	+0.03	150 - 250	25.1250	25.0110	25.2075	-4.2	24.855	4.2	26.075	-3.8	-

† SDR rate per $ for Oct 25. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 25. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

October 26	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	$3\frac{7}{8}$	$4\frac{1}{8}$	$4\frac{1}{4}$	$4\frac{3}{8}$	$4\frac{1}{2}$	8.00	3.50	-
week ago	$4\frac{1}{16}$	$4\frac{1}{8}$	$4\frac{1}{4}$	$4\frac{1}{4}$	$4\frac{3}{8}$	8.00	3.50	-
France	$7\frac{1}{4}$	$7\frac{1}{4}$	$7\frac{1}{4}$	$6\frac{7}{8}$	$6\frac{5}{8}$	5.00	-	7.00
week ago	$6\frac{3}{4}$	$7\frac{1}{4}$	$6\frac{7}{8}$	$6\frac{3}{4}$	$6\frac{5}{8}$	5.00	-	7.00
Germany	$3\frac{7}{8}$	4	4	4	4	5.50	3.50	4.03
week ago	$4\frac{1}{4}$	4	$4\frac{1}{8}$	$4\frac{1}{8}$	4	5.50	3.50	4.03
Ireland	$5\frac{1}{4}$	$5\frac{1}{2}$	$5\frac{3}{4}$	$5\frac{7}{8}$	$6\frac{1}{8}$	-	-	6.25
week ago	$5\frac{1}{4}$	$5\frac{1}{2}$	$5\frac{3}{4}$	6	$6\frac{1}{4}$	-	-	6.25
Italy	$10\frac{1}{4}$	$10\frac{1}{2}$	$10\frac{5}{8}$	$10\frac{3}{4}$	$10\frac{7}{8}$	-	9.00	10.77
week ago	$10\frac{1}{4}$	$10\frac{1}{2}$	$10\frac{3}{4}$	$10\frac{7}{8}$	$10\frac{7}{8}$	-	9.00	10.38
Netherlands	$3\frac{3}{4}$	$3\frac{7}{8}$	$3\frac{7}{8}$	$3\frac{7}{8}$	$4\frac{1}{8}$	-	3.50	3.70
week ago	$3\frac{7}{8}$	$3\frac{7}{8}$	$3\frac{7}{8}$	4	$4\frac{1}{8}$	-	3.50	3.70
Switzerland	$1\frac{7}{8}$	$1\frac{7}{8}$	2	$2\frac{1}{4}$	$2\frac{1}{4}$	5.00	2.00	-
week ago	$\frac{3}{4}$	$1\frac{7}{8}$	$2\frac{1}{8}$	$2\frac{1}{4}$	$2\frac{1}{4}$	5.00	2.00	-
US	$5\frac{3}{4}$	$5\frac{7}{8}$	$5\frac{3}{4}$	$5\frac{7}{8}$	$5\frac{7}{8}$	-	5.25	-
week ago	$5\frac{3}{4}$	$5\frac{7}{8}$	$5\frac{7}{8}$	$5\frac{7}{8}$	$5\frac{7}{8}$	-	5.25	-
Japan	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{5}{8}$	$\frac{1}{2}$	-	0.50	-
week ago	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	$\frac{1}{2}$	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	$5\frac{7}{8}$	$5\frac{7}{8}$	$5\frac{3}{4}$	$5\frac{5}{8}$	-	-	-
week ago	-	$5\frac{7}{8}$	$5\frac{7}{8}$	$5\frac{3}{4}$	$5\frac{3}{4}$	-	-	-
US Dollar CDs	-	5.60	5.61	5.64	5.68	-	-	-
week ago	-	5.60	5.61	5.61	5.61	-	-	-
ECU Linked Ds	-	$5\frac{7}{8}$	$5\frac{3}{4}$	$5\frac{7}{8}$	$5\frac{7}{8}$	-	-	-
week ago	-	$5\frac{3}{4}$	$5\frac{3}{4}$	$5\frac{5}{8}$	$5\frac{5}{8}$	-	-	-
SDR Linked Ds	-	$3\frac{3}{4}$	$3\frac{3}{4}$	$3\frac{3}{4}$	$3\frac{3}{4}$	-	-	-
week ago	-	$3\frac{3}{4}$	$3\frac{3}{4}$	$3\frac{3}{4}$	$3\frac{3}{4}$	-	-	-

$ LIBOR Interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 26	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	$4\frac{1}{8}$ - 4	$4\frac{1}{8}$ - 4	$4\frac{5}{32}$ - $4\frac{1}{32}$	$4\frac{3}{8}$ - $4\frac{1}{4}$	$4\frac{7}{16}$ - $4\frac{5}{16}$	$4\frac{9}{16}$ - $4\frac{7}{16}$
Danish Krone	$5\frac{3}{8}$ - $4\frac{7}{8}$	$5\frac{1}{2}$ - $5\frac{1}{4}$	$5\frac{5}{8}$ - $5\frac{7}{16}$	$5\frac{3}{4}$ - $5\frac{9}{16}$	$5\frac{13}{16}$ - $5\frac{5}{8}$	$5\frac{15}{16}$ - $5\frac{11}{16}$
D-Mark	$4\frac{1}{16}$ - $3\frac{15}{16}$	$4\frac{1}{8}$ - 4	$4\frac{1}{16}$ - $3\frac{15}{16}$	$4\frac{1}{16}$ - $3\frac{15}{16}$	$4\frac{1}{16}$ - $3\frac{15}{16}$	$4\frac{1}{16}$ - $3\frac{15}{16}$
Dutch Guilder	$3\frac{7}{8}$ - $3\frac{3}{4}$	$3\frac{7}{8}$ - $3\frac{3}{4}$	$3\frac{7}{8}$ - $3\frac{13}{16}$	$3\frac{15}{16}$ - $3\frac{13}{16}$	4 - $3\frac{13}{16}$	$4\frac{1}{32}$ - $3\frac{15}{16}$
French Franc	$6\frac{1}{4}$ - $5\frac{7}{8}$	$7\frac{7}{16}$ - $6\frac{15}{16}$	$7\frac{3}{8}$ - $7\frac{1}{8}$	$7\frac{3}{16}$ - $7\frac{1}{8}$	$7\frac{1}{16}$ - $6\frac{7}{8}$	7 - $6\frac{3}{4}$
Portuguese Esc.	$8\frac{15}{16}$ - $8\frac{13}{16}$	$8\frac{15}{16}$ - $8\frac{13}{16}$	$9\frac{1}{8}$ - 9	$9\frac{5}{16}$ - $9\frac{3}{16}$	$9\frac{7}{16}$ - $9\frac{1}{4}$	$9\frac{5}{8}$ - $9\frac{7}{16}$
Spanish Peseta	$9\frac{3}{8}$ - $9\frac{1}{4}$	$9\frac{3}{8}$ - $9\frac{1}{4}$	$9\frac{7}{16}$ - $9\frac{5}{16}$	$9\frac{9}{16}$ - $9\frac{7}{16}$	$9\frac{5}{8}$ - $9\frac{1}{2}$	$9\frac{11}{16}$ - $9\frac{9}{16}$
Sterling	$6\frac{5}{8}$ - $6\frac{1}{2}$	$6\frac{5}{8}$ - $6\frac{1}{2}$	$6\frac{11}{16}$ - $6\frac{5}{8}$	$6\frac{23}{32}$ - $6\frac{21}{32}$	$6\frac{23}{32}$ - $6\frac{21}{32}$	$6\frac{25}{32}$ - $6\frac{23}{32}$
Swiss Franc	2 - $1\frac{7}{8}$	$2\frac{1}{8}$ - 2	$2\frac{1}{16}$ - $1\frac{15}{16}$	$2\frac{3}{16}$ - $2\frac{1}{16}$	$2\frac{3}{16}$ - $2\frac{1}{16}$	$2\frac{1}{4}$ - $2\frac{1}{8}$
Can. Dollar	$6\frac{5}{8}$ - $6\frac{7}{16}$	$6\frac{13}{16}$ - $6\frac{5}{8}$	$7\frac{1}{8}$ - 7	$7\frac{3}{16}$ - $7\frac{1}{16}$	$7\frac{1}{16}$ - $6\frac{15}{16}$	$7\frac{1}{16}$ - $6\frac{15}{16}$
US Dollar	$5\frac{3}{4}$ - $5\frac{1}{2}$	$5\frac{13}{16}$ - $5\frac{11}{16}$	$5\frac{13}{16}$ - $5\frac{11}{16}$	$5\frac{15}{16}$ - $5\frac{13}{16}$	$5\frac{7}{8}$ - $5\frac{3}{4}$	$5\frac{13}{16}$ - $5\frac{5}{8}$
Italian Lira	$10\frac{11}{16}$ - $10\frac{7}{16}$	$10\frac{5}{8}$ - $10\frac{3}{8}$	$10\frac{5}{16}$ - $10\frac{7}{16}$	$10\frac{3}{4}$ - $10\frac{5}{8}$	$10\frac{13}{16}$ - $10\frac{11}{16}$	$10\frac{7}{8}$ - $10\frac{3}{4}$
Yen	$\frac{9}{16}$ - $\frac{7}{16}$	$\frac{3}{4}$ - $\frac{5}{8}$	$\frac{9}{16}$ - $\frac{3}{8}$	$\frac{17}{32}$ - $\frac{3}{16}$	$\frac{17}{32}$ - $\frac{3}{16}$	$\frac{7}{16}$ - $\frac{1}{4}$
Asian $Sing	$1\frac{1}{4}$ - $1\frac{1}{8}$	$2\frac{5}{8}$ - $2\frac{1}{2}$	$2\frac{13}{16}$ - $2\frac{11}{16}$	$2\frac{15}{16}$ - $2\frac{13}{16}$	3 - $2\frac{7}{8}$	$3\frac{1}{8}$ - 3

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.91	93.08	+0.14	93.10	92.82	50,189	41,255
Mar	93.82	93.88	+0.02	93.88	93.77	8,154	32,186
Jun	94.25	94.29	+0.02	94.30	94.23	3,194	30,525

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.01	95.97	-0.04	96.01	95.95	20897	138940
Mar	96.15	96.12	-0.04	96.16	96.10	31198	153335
Jun	96.07	96.05	-0.03	96.10	96.01	22728	123398
Sep	95.89	95.88	-0.01	95.92	95.85	17030	91366

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	88.87	89.38	+0.51	89.45	88.82	30417	33944
Mar	89.19	89.64	+0.43	89.74	89.18	7883	26588
Jun	89.42	89.83	+0.39	89.91	89.42	1813	14618
Sep	89.54	89.89	+0.32	89.93	89.54	472	7820

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.83	97.87	+0.05	97.89	97.82	4310	21818
Mar	97.91	97.96	+0.05	97.98	97.91	4707	19014
Jun	97.83	97.88	+0.07	97.89	97.82	1480	5745
Sep	97.62	97.68	+0.06	97.71	- 97.62	199	3233

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.17	94.22	+0.03	94.25	94.16	2399	8816
Mar	94.41	94.43	-	94.45	94.41	497	3845
Jun	94.43	94.45	+0.01	94.46	94.42	96	2418
Sep	94.26	94.29	-0.03	94.34	94.27	92	1497

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
8925	0.44	0.80	1.01	0.31	0.41	0.43
8950	0.29	0.65	0.85	0.41	0.51	0.52
8975	0.17	0.52	0.71	0.54	0.63	0.63

Est. vol. total, Calls 320 Puts 125. Previous day's open int., Calls 12640 Puts 6833

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 26		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.90	17.10	4.864	2.148	5559	5.449	21.58	514.8	424.5	23.07	3.954	2.205	4.739	3.471	353.3	2.682
Denmark	(DKr)	52.90	10	9.045	2.573	1.136	2941	2.883	11.42	272.4	224.6	12.20	2.092	1.167	2.507	1.836	186.9	1.408
France	(FFr)	58.49	11.06	10	2.845	1.256	3252	3.187	12.62	301.2	248.3	13.49	2.313	1.290	2.772	2.030	206.6	1.557
Germany	(DM)	20.56	3.886	3.515	1	0.442	1143	1.120	4.436	105.8	87.26	4.742	0.813	0.453	0.974	0.714	72.62	0.547
Ireland	(I£)	46.56	8.801	7.960	2.265	1	2588	2.537	10.05	239.7	197.6	10.74	1.841	1.027	2.206	1.616	164.5	1.239
Italy	(L)	1.799	0.340	0.308	0.088	0.039	100.	0.098	0.388	9.262	7.636	0.415	0.071	0.040	0.085	0.062	6.355	0.048
Netherlands	(Fl)	18.35	3.469	3.138	0.893	0.394	1020	1	3.960	94.50	77.90	4.233	0.726	0.405	0.870	0.637	64.83	0.488
Norway	(NKr)	46.34	8.759	7.923	2.254	0.995	2576	2.525	10	238.6	196.7	10.69	1.832	1.022	2.196	1.608	163.7	1.233
Portugal	(Es)	19.42	3.671	3.320	0.945	0.417	1080	1.058	4.191	100.	82.44	4.480	0.768	0.428	0.920	0.674	68.61	0.517
Spain	(Pta)	23.56	4.453	4.028	1.146	0.506	1310	1.284	5.084	121.3	100.	5.434	0.931	0.519	1.116	0.818	83.22	0.627
Sweden	(SKr)	43.36	8.195	7.412	2.109	0.931	2410	2.362	9.356	223.2	184.0	10	1.714	0.956	2.054	1.505	153.2	1.154
Switzerland	(SFr)	25.29	4.781	4.324	1.230	0.543	1406	1.378	5.458	130.2	107.4	5.834	1	0.558	1.199	0.878	89.35	0.673
UK	(£)	45.35	8.572	7.753	2.206	0.974	2521	2.471	9.786	233.5	192.5	10.46	1.793	1	2.149	1.574	160.2	1.207
Canada	(C$)	21.10	3.989	3.608	1.027	0.453	1173	1.150	4.554	108.7	89.58	4.867	0.834	0.465	1	0.732	74.55	0.562
US	($)	28.81	5.446	4.926	1.402	0.619	1602	1.570	6.217	148.3	122.3	6.645	1.139	0.635	1.365	1	101.8	0.767
Japan	(Y)	28.31	5.351	4.840	1.377	0.608	1574	1.542	6.109	145.8	120.2	6.529	1.119	0.624	1.341	0.983	100.	0.753
Ecu		37.57	7.102	6.423	1.828	0.807	2089	2.047	8.108	193.5	159.5	8.666	1.486	0.829	1.780	1.304	132.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7208	0.7221	+0.0014	0.7225	0.7100	18,944	54,032
Mar	0.7232	0.7252	+0.0013	0.7254	0.7120	845	3,476
Jun	-	0.7282	+0.0012	0.7275	0.7500	5	172

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.9976	0.9958	-0.0015	0.9976	0.9873	23,450	60,822
Mar	1.0102	1.0097	-0.0018	1.0102	1.0022	835	8,520
Jun	1.0165	1.0227	-0.0021	1.0230	1.0165	118	384

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.8885	0.8898	+0.0010	0.8901	0.8790	16,931	34,194
Mar	0.8944	0.8977	+0.0010	0.8978	0.8885	190	1,986
Jun	-	0.9053	+0.0010	0.9045	0.8970	8	406

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.5784	1.5822	+0.0038	1.5830	1.5680	2,500	33,878
Mar	1.5768	1.5786	+0.0038	1.5800	1.5650	3	212
Jun	-	1.5746	+0.0038	1.5730	1.5620	2	10

UK INTEREST RATES

LONDON MONEY RATES

Oct 26	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	$7\frac{1}{2}$ - $6\frac{1}{4}$	$6\frac{11}{16}$ - $6\frac{9}{16}$	$6\frac{11}{16}$ - $6\frac{9}{16}$	$6\frac{3}{4}$ - $6\frac{5}{8}$	$6\frac{13}{16}$ - $6\frac{11}{16}$	$6\frac{13}{16}$ - $6\frac{11}{16}$
Sterling CDs	-	-	$6\frac{21}{32}$ - $6\frac{19}{32}$	$6\frac{11}{16}$ - $6\frac{5}{8}$	$6\frac{23}{32}$ - $6\frac{21}{32}$	$6\frac{25}{32}$ - $6\frac{23}{32}$
Treasury Bills	-	-	$6\frac{5}{8}$ - $6\frac{9}{16}$	$6\frac{19}{32}$ - $6\frac{17}{32}$	-	-
Bank Bills	-	-	$6\frac{5}{8}$ - $6\frac{9}{16}$	$6\frac{5}{8}$ - $6\frac{9}{16}$	$6\frac{5}{8}$ - $6\frac{9}{16}$	-
Local authority deps.	$6\frac{13}{16}$ - $6\frac{11}{16}$	$6\frac{9}{16}$ - $6\frac{7}{16}$	$6\frac{11}{16}$ - $6\frac{9}{16}$	$6\frac{3}{4}$ - $6\frac{5}{8}$	$6\frac{3}{4}$ - $6\frac{11}{16}$	$6\frac{3}{4}$ - $6\frac{11}{16}$
Discount Market deps	$7\frac{1}{4}$ - $6\frac{3}{8}$	$6\frac{5}{8}$ - $6\frac{1}{2}$	-	-	-	-

UK clearing bank base lending rate $6\frac{3}{4}$ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	$5\frac{3}{8}$	$5\frac{1}{4}$	6	$6\frac{1}{4}$

Certs of Tax dep. under £100,000 is $2\frac{1}{2}$pc. Deposits withdrawn for cash $1\frac{1}{4}$pc.
Ave. tender rate of discount 6.5715pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 29, 1995. Agreed rate for period Oct 26, 1995 to Nov 25, 1995, Schemes II & III 8.04pc. Reference rate for period Sep 1, 1995 to Sep 29, 1995, Schemes IV & V 6.795pc. Finance House Base Rate 7pc from October 1, 1995

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.28	93.30	+0.02	93.30	93.28	9075	87150
Mar	93.39	93.42	+0.01	93.43	93.38	18453	85031
Jun	93.34	93.37	+0.01	93.40	93.33	11315	48562
Sep	93.16	93.22	+0.04	93.25	93.16	10786	38215
Dec	92.97	92.99	+0.04	93.03	92.96	3876	28307

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9325	0.14	0.37	0.49	0.09	0.20	0.37
9350	0.04	0.23	0.36	0.24	0.31	0.49
9375	0.01	0.13	0.25	0.46	0.48	0.63

Est. vol. total, Calls 4950 Puts 5509. Previous day's open int., Calls 137854 Puts 136235

EMS EUROPEAN CURRENCY UNIT RATES

Oct 26	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Austria	13.4383	13.0051	-0.1073	-3.22	7.41	24
Netherlands	2.15214	2.08778	+0.00071	-2.99	7.15	22
Belgium	39.3960	38.3297	+0.0113	-2.71	6.84	20
Germany	1.91007	1.86330	+0.00012	-2.45	6.56	24
Denmark	7.28580	7.24247	+0.00485	-0.59	4.57	4
Spain	162.493	162.722	+0.834	0.14	3.80	-1
Portugal	195.792	197.321	+0.335	0.78	3.14	-5
France	6.40608	6.55223	+0.01504	2.28	1.63	-19
Ireland	0.792214	0.823478	+0.000528	3.95	0.00	-27
NON ERM MEMBERS						
Greece	292.867	309.025	+0.684	5.52	-1.49	-
Italy	2106.15	2128.47	-28.91	1.06	2.86	-
UK	0.786652	0.845400	+0.000873	7.47	-3.28	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Nov	Dec	Jan	PUTS Nov	Dec	Jan
1.540	4.03	4.38	4.76	0.05	0.46	0.91
1.550	3.07	3.59	4.05	0.11	0.64	1.20
1.560	2.25	2.87	3.40	0.23	0.93	1.55
1.570	1.48	2.29	2.81	0.38	1.30	1.98
1.580	0.87	1.75	2.34	0.78	1.78	2.43
1.590	0.45	1.31	1.89	1.35	2.32	2.94

Previous day's vol., Calls 7,013 Puts 8,545. Prev. day's open int., Calls 245,238 Puts 281,603

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.23	94.23	+0.01	94.25	94.20	80,740	383,114
Mar	94.48	94.48	-	94.53	94.45	141,272	372,731
Jun	94.48	94.47	-0.01	94.54	94.43	80,349	260,145

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.83	94.84	+0.02	94.85	94.81	2,786	12,124
Mar	95.00	94.99	+0.03	95.02	94.96	477	4,643
Jun	95.02	94.99	+0.01	95.03	94.96	62	249

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Nov	Dec	Jan	Mar	PUTS Nov	Dec	Jan	Mar
9575	0.23	0.24	0.40	0.42	0.01	0.02	0.03	0.05
9600	0.03	0.07	0.19	0.24	0.06	0.10	0.07	0.12
9625	0	0.02	0.06	0.11	0.28	0.30	0.19	0.24

Est. vol. total, Calls 7708 Puts 8728. Previous day's open int., Calls 230623 Puts 227299

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9775	0.17	0.26	0.33	0.06	0.07	0.20
9800	0.04	0.12	0.19	0.17	0.16	0.31
9825	0.02	0.05	0.09	0.40	0.34	0.46

Est. vol. total, Calls 950 Puts 0. Previous day's open int., Calls 5279 Puts 1475

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs.	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	United Bank of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Western Trust	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75		
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75		
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	* Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

● Members of London Investment Banking Association
* In administration

BANKS, MERCHANT

CHEMICALS

ELECTRONIC & ELECTRICAL EQPT - Cont.

EXTRACTIVE INDUSTRIES - Cont.

HOUSEHOLD GOODS - Cont.

INVESTMENT TRUSTS - C

BANKS, RETAIL

DISTRIBUTORS

INSURANCE

ENGINEERING

BREWERIES

BUILDING & CONSTRUCTION

INVESTMENT TRUSTS

FOOD PRODUCERS

DIVERSIFIED INDUSTRIALS

BUILDING MATS. & MERCHANTS

ELECTRICITY

GAS DISTRIBUTION

HEALTH CARE

ENGINEERING, VEHICLES

ELECTRONIC & ELECTRICAL EQPT

INV TRUSTS SPLIT CAPITAL

EXTRACTIVE INDUSTRIES

HOUSEHOLD GOODS

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official List.

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£31¼	......	£34	£29	2,109	2.6	Φ
Barlow	♣	98½	+½	£8½	£4½	1,619	1.2	29.5
Gold Flds Prop R		150xd	+5	152	118	15.3	7.0	6.8
MK Props		88	......	95	85	3.46	13.6	-
SASOL	♥	539	-13	648	435	3,158	2.5	-
SA Brews		£21¼	+¼	£21¾	£12¾	4,116	1.6	29.2
Standard Bank	□	£24½	+¼	£24½	£20¼	2,903	1.9	17.0
Tiger Oats		1058	-22	1087	700	1,581	1.4	25.4
Tongaat-Hulett	[illegible]	852	+2	852	636	778.5	1.6	25.4

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas Incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✣ USM: not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish Incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1275 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

BERMUDA (REGULATED)(**)

Bermuda Int'l Invest Mngmt Ltd

GUERNSEY (SIB RECOGNISED)

AIB Investment Managers (Guernsey) Ltd

Adams & Neville Fd Mangt (Guernsey) Ltd

Equitable International Fund Managers Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Hambros Fd Mgrs (CI) Ltd

Kleinwort Benson Int'l Fd Mgrs Ltd

Lazard Freres Asset Management (CI) Ltd

Lloyds Int'l Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

GT Asset Management (Ireland) Ltd

IRELAND (REGULATED)(**)

AIB Fund Management Ltd

Calplus Fund

Capital Vision Fund Plc

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland)

Citizens Investment Trust Mngt Company

DIT Dresdner Global Strategies Fund

Daiwa Europe Fund Managers Ireland Ltd

Dragon Korea Fund Plc

Dynamic Pacific Portfolio Fund Plc

Citi Fund Managers - Contd.

Mercury Fund Managers IoM Ltd

Quilter Int'l Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

Foreign & Colonial Mngt - Contd.

John Govett Management (Jersey) Ltd

INVESCO International Limited

Jupiter Tyndall (Jersey) Ltd

Lloyds Private Banking (CI) Ltd

LUXEMBOURG (SIB RECOGNISED)

DB Investment Management SA

Danske Fund (s)

Den norske Bank

Dolphin Int'l Investments (s) SICAV

Dresdnerbank Asset Mngmt SA (u)

Mercury Asset Management S.A.

Midland Int'l Circuit Fund SICAV(s)

LUXEMBOURG (REGULATED)(**)

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	Selling Price	Buying Price	+ or -	Yield Gross
Clemente Korea Emerging Growth Fund				
NAV Oct 20	$11.84		-0.03	-
Credis Investment Funds	[illegible]	[illegible]	[illegible]	[illegible]
Merrill Lynch Asset Management - Contd.				
Global SmallCap Portfolio Class A	[illegible]		[illegible]	-
Technology Portfolio Class A / Class B	$13.50 / $13.40		[illegible]	-
Capital Portfolio Class A / Class B	$10.19 / $10.17		-0.01	-
Monterey Trust SICAV				
NAV	$20.10		-	-
Morgan Stanley Sicav	[illegible]		[illegible]	-
Murray Universal, Sicav	[illegible]	[illegible]	[illegible]	-
NICAM Asia Pacific Umbrella Fund	[illegible]	[illegible]	[illegible]	-
Nikko Asia Convertible Bond Fund				
Nikko Asia Conv Bond NAV	$9.77		-	-
Nikko Bank (Luxembourg) S.A.	[illegible]		[illegible]	-
Abtrust International Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Royal Life International	[illegible]	[illegible]	[illegible]	[illegible]
Camco Investment Management Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Capital International	[illegible]	[illegible]	[illegible]	[illegible]
Cathay Investment Fund Limited	[illegible]	[illegible]	[illegible]	[illegible]
Global Asset Management - Contd.	[illegible]	[illegible]	[illegible]	[illegible]
Magnum Funds	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia Capital Fund Ltd	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia Fund (Labuan)	[illegible]	[illegible]	[illegible]	[illegible]
Republic Funds	[illegible]	[illegible]	[illegible]	[illegible]

OTHER OFFSHORE FUNDS

	Selling Price	Buying Price	+ or -	Yield Gross
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OFFSHORE INSURANCES

	Selling Price	Buying Price	+ or -	Yield Gross
AXA Equity & Law Intl Life Assce Co	[illegible]	[illegible]	[illegible]	[illegible]

MANAGED FUNDS NOTES

[illegible]

LONDON STOCK EXCHANGE

MARKET REPORT

Shares fall despite the return of bid rumours

By Philip Coggan, Markets Editor

A revival of takeover speculation and a shortlived rally in the dollar, on the back of President Yeltsin's health worries, failed to lift shares in London yesterday, as further weakness on Wall Street depressed sentiment.

The FT-SE 100 index closed 18.2 points lower at 3,519.6 and has now dropped more than 2 per cent from the all-time high reached last week. The junior FT-SE Mid 250 index fell 21.1 points to 3,885.3.

Wall Street's drop overnight, with the Dow Jones Industrial Average shedding 30 points, did not get London trading off to a strong start. The market was also hit in the morning by a sell programme and by heavy selling in the futures market, said to have been conducted by a US brokerage.

Results from ICI, although not too far out of line with expectations, appeared to confirm comments from US group Du Pont about gloomy conditions in the chemicals industry. ICI's stock was the Footsie's worst performer.

At lunchtime the Footsie registered its lowest level of the day, down 24.4 points at 3,513.4. Wall Street weakness in the afternoon, with the Dow around 17 points lower at the close of London trading, scarcely provided the conditions for a rebound.

The Dow fell even further in the early evening, with the result that the FT-SE 100 December futures contract, which closes an hour after the cash market, retreated to 3,518.

There was also a general feeling that the UK rally is looking rather tired. "Everyone believes the market is pretty well up with events and they are not that keen to see the Footsie move far from 3,500," said Mr George Hodgson, UK equity strategist at SBC Warburg.

However, support for the market came from the revival of takeover speculation. Once more it was the financial sector which provided the potential candidate.

Legal & General was the best performing Footsie constituent on the back of speculation that a predator, possibly National Westminster Bank, could be in the wings. The insurance sector has been subject to bid rumours for some weeks but as yet no deal has emerged.

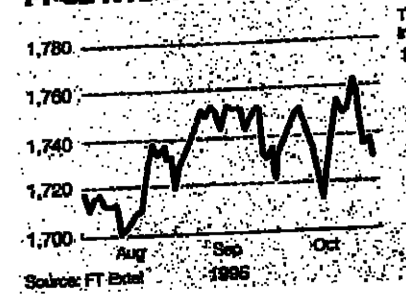
A further boost to sentiment came from gilts, which held on to the gains made after Wednesday's successful auction. The benchmark 10-year issue rose a further three ticks.

News that Russian President Boris Yeltsin had been hospitalised with a heart condition briefly helped the dollar. The rally in the US currency initially helped European stock markets, including the UK.

But the news had mixed implications, with some traders worrying about the political instability that would result from Mr Yeltsin's departure. In any case, the dollar eventually slipped back on more reassuring reports about Mr Yeltsin's health.

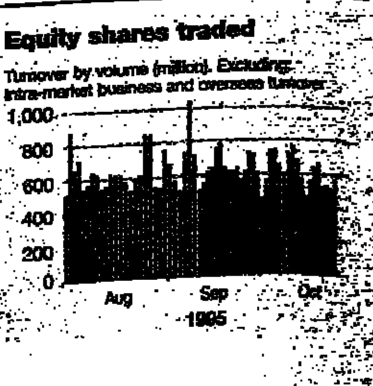
Volume was steady rather than spectacular, with turnover boosted by two Mid 250 index stocks, DFS Furniture and London Clubs. They made up 80m of the 648.6m shares traded by the 6pm count. Retail business on Wednesday was worth almost £1.6bn.

FT-SE-A All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3519.6	-18.2
FT-SE Mid 250	3885.3	-21.1
FT-SE-A 350	1751.3	-9.2
FT-SE-A All-Share	1730.57	-8.78
FT-SE-A All-Share yield	3.86	(3.84)
FT Ordinary index	2571.3	+0.16
FT-SE-A Non Fins p/e	16.67	(16.78)
FT-SE 100 Fut Dec	3533.0	-27.0
10 yr Gilt yield	8.02	(8.03)
Long gilt/equity yld ratio:	2.15	(2.17)

Best performing sectors

1 Life Assurance +2.1
2 Gas Distribution +2.0
3 Diversified Indls. +0.3
4 Oil Expl. & Prod. +0.1
5 Retailers, Food +0.1

Worst performing sectors

1 Telecommunications -1.6
2 Banks, Merchant -1.3
3 Banks, Retail -1.2
4 Household Goods -1.2
5 Chemicals -0.9

Takeover talk lifts L&G

Bid fever, which has been ebbing away from financial stocks, was suddenly revived yesterday with a late story revolving around Legal & General.

Having been only marginally higher all day, L&G's shares put on a spurt in the final half-hour of trading and topped the Footsie performance chart with a rise of 4.5 per cent.

The life insurance group has been seen as a takeover target for some time, and is often linked with Allianz, of Germany. Yesterday, marketmakers decided its future lay with National Westminster, the high street bank. The rationale was that NatWest would use the cash from its long-awaited sale of Bancorp, its US subsidiary, to buy L&G.

L&G would be an expensive acquisition – on estimates of a bid at no less than 800p a share, there would be very little change out of £4bn. Nevertheless, analysts said three-quarters of the cost would represent embedded value, which would go straight to the balance sheet.

More cautious analysts wondered why NatWest would necessarily want to buy L&G. They pointed out that NatWest already has a life business and the potential cost savings would not match those of a bank merger, which offers the possibility of sweeping branch closures.

However, the market liked the story and L&G was up 35 at best before ending 29 ahead at 670p. Conversely, NatWest fell 19 to 637p.

The insurance sectors, weak all day, revived towards the close. Commercial Union gained 4 at 604p, Royal Insurance rallied from being 11 down to finish unchanged at 383p, while Prudential added 6 at 392p and Lloyds Abbey Life 5 at 458p.

ICI declines

Shares in ICI, the chemicals giant traditionally considered a litmus test for the performance of British industry, fell sharply on third-quarter figures.

Profits of £216m over the three months to the end of September were broadly in line with analysts' forecasts and up on the same period a year ago.

However, they followed gloomy predictions about global prospects from US rival Du Pont. And comments by ICI underlined the view that the good times are coming to an end.

Mr David Ingle, chemicals analyst with James Capel, said ICI's headline figure disguised a 4 per cent drop in volumes – only partly reflecting destocking. This was offset by a 14 per cent rise in prices. However, prices of bulk chemicals have been slowing for the past few months and, because of the delaying element of forward buying, are expected to impact on subsequent profits.

Most of this was not dramatically new information and analysts were tending to leave their forecasts for this year and 1996 unchanged. But it gave little incentive to buy the shares, which weakened 24 to 779p.

Comments about falling chemicals prices tended to steer investors towards Courtaulds, which is a consumer rather than a producer. Courtaulds shares gained 9 at 392p.

Danka plummets

News of a £109m purchase sent Danka Business Systems crashing to the bottom of the FT-SE Mid 250 rankings, with a fall of 12 per cent.

The office equipment group turned in strong interim results but traders chose to focus on a Dutch acquisition. The deal, equal to a tenth of Danka's market capitalisation, will lead to a third-quarter restructuring charge of £6m. Danka made profits of £27m for the half year.

Some two-thirds of the shares are held by US investors and selling from Wall Street was said to have caused most of yesterday's downturn. Down 72 at one stage, the shares ended 67 off at 489p.

Panmure Gordon analyst Mr Nigel Davies upgraded his profits estimate for next year by £4m to £75m and felt the shakeout created a clear buying opportunity.

Up 21 in three days, Smiths Industries met with profit-taking yesterday, in spite of a clutch of bullish brokers' notes – "the best quality stock in the engineering sector" – and a general tendency among analysts to tweak profits estimates higher. The shares came off 5 to 575p.

The City consensus appears to be "buy on weakness", with NatWest Securities summing up the broad view by rating the shares a hold, but declaring: "We are sorely tempted to take a more positive stance. It is perhaps only short-term penny pinching that persuades us to look for a better opportunity after the run that the shares have had ahead of, and as a consequence of, the results."

Both Merrill Lynch and NatWest have raised profits estimates for this year. The latter is going up by £1.5m to £155m and predicting the pace of growth to gain momentum, as aircraft deliveries rise.

Bank of Scotland fell 5 to 254p. Standard & Poor's said it planned to lower its debt ratings, and those of Bank of Western Australia (BankWest), upon completion of the acquisition of BankWest by BoS.

British Gas recovered 5 to 241½p following Wednesday's mauling. SGST upgraded its recommendation on the shares to "short term trading buy" from "weak hold", in the wake of recent share weakness, which was caused by comments from Ms Clare Spottiswoode, the industry regulator.

Pharmaceuticals leader Glaxo Wellcome shed 8 to 852p as the market took on board a competitive threat from Novopharm, of Canada, to Zantac, the company's top-selling ulcer drug.

Pharmaceuticals group SmithKline Beecham dipped 11½ to 661½ on profit-taking following earlier gains ahead of Wednesday's third-quarter earnings.

Off 42 at one stage, leisure leader Thorn EMI closed 25 lower at 1469p as NatWest Securities was said to have completed the placing of a large line of stock. The flat mood yesterday was not helped by the mildly bearish tone to Philips' comments about its Polygram music unit.

Holiday groups also had a bad day, with Airtours coming off 9 to 320p and First Choice sliding 6 to 65p, following downbeat trade press stories about 1996 bookings. However, analysts pointed out that less than 20 per cent of the two groups' total business is traditionally undertaken prior to Christmas.

Bluebird Toys, which stood at 222p in September, added 3 at 360p on continued takeover hopes. Loan stock conversion has given US toys giant Hasbro 6.7 per cent of the company.

London Clubs retreated 10 to 412p, with 36m traded, following news that some 24 per cent of the group had changed hands. Merrill Lynch placed the shares at 400p.

Foods and detergents giant Unilever put on 7 to 1235p in the wake of strong first-quarter sales trends from Procter & Gamble. Rumours of an impending takeover in the Far East unsettled household goods leader Reckitt & Colman, 13 off at 678p.

Furniture group DFS jumped 11 to 346p in turnover of 44m as the founding family ran down their shareholdings to 30 per cent. The group came to the market two years ago at 260p. The family shares, equal to 22 per cent of the group, were placed at 328p.

MARKET REPORTERS:
Peter John,
Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Oct 26	Oct 25	Oct 24	Oct 23	Oct 20	Yr ago	*High	*Low
Ordinary Share	2571.3	2582.4	2582.7	2579.5	2599.6	2310.8	2666.5	2238.3
Ord. div. yield	4.13	4.10	4.10	4.10	4.08	4.45	4.73	4.02
P/E ratio net	15.57	15.67	15.67	15.66	15.92	18.15	21.33	15.35
P/E ratio nil	15.38	15.48	15.48	15.47	15.73	17.70	22.21	15.17

*For 1995. Ordinary Share index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share Index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2575.3	2571.1	2577.8	2573.0	2575.5	2567.6	2571.1	2569.3	2571.1	2578.8	2567.1

	Oct 26	Oct 25	Oct 24	Oct 23	Oct 20	Yr ago
SEAQ bargains	24,187	26,002	26,726	28,498	28,064	21,112
Equity turnover (£m)†	-	1596.4	1397.4	1268.9	1451.0	1109.6
Equity bargains†	-	30,782	31,670	32,615	33,375	24,353
Shares traded (ml)†	-	582.5	552.6	570.4	569.3	465.2

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	446	Total Highs	65	Total contracts	32,796
Total Falls	665	Total Lows	81	Calls	9,892
Same	1,574			Puts	22,904

Oct. 26 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3541.0	3533.0	-27.0	3544.0	3516.0	11885	65847
Mar	-	3562.0	-27.0	-	-	0	3058
Jun	-	3567.0	-27.0	-	-	0	134

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3925.0	3910.0	-20.0	3925.0	3925.0	50	3537

■ FT-SE 100 INDEX OPTION (LIFFE) (*3520) £10 per full index point

	3350		3400		3450		3500		3550		3600		3650		3700	
	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P
Nov	[illegible]															
Dec	[illegible]															
Jan	[illegible]															
Feb	[illegible]															
Jun†	[illegible]															

Calls 2,790 Puts 3,703

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3325		3375		3425		3475		3525		3575		3625		3675	
Nov	[illegible]															
Dec	[illegible]															
Jan	[illegible]															
Mar	[illegible]															
Jun†	305	74			280½	105					183	143			133½	189

Calls 1,460 Puts 7,952 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	32.2	93	92	Abtrust Asian Smlr	92		-	-	-	-
-	F.P.	2.24	33	32	Do Warrants	32		-	-	-	-
50	F.P.	14.1	71	50	Consolidated Coal	64		-	-	-	-
-	F.P.	39.9	139	102	†Creos Intl	111	+2	-	-	-	-
-	F.P.	5.62	130	120	†Euro Sales Fin	125	-5	-	-	-	-
-	F.P.	0.59	28	17½	German Sml Wts	18		-	-	-	-
-	F.P.	5.70	40	25	Hay & Robertson	38		v-	-	-	-
-	F.P.	11.4	119	112	†Indpt Radio	114		v-	-	-	-
45	F.P.	17.6	61	52	†MultiMedia	61		v-	-	-	-
-	F.P.	18.9	105	100	Murray Vct	103		-	-	-	-
-	F.P.	14.4	61	60	Pemberstone	60		v-	-	-	-
100	F.P.	30.9	104	99	Pictet British	103		-	-	-	-
400	F.P.	3.62	400	400	†Preston Nth End	400		v-	-	-	-
-	F.P.	-	½	½	Upton & Sthn Wts	½		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Oct 25	% chg on day	Oct 24	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	1794.90	+0.8	1779.80	2268.77	2.01	-	2268.77	1637.91
■ Regional Indices								
Africa (16)	2414.98	-1.5	2451.79	3664.59	4.23	20.91	3664.59	2428.19
Australasia (6)	2195.66	+1.4	2165.29	2676.89	2.27	24.52	2698.86	1788.20
North America (12)	1562.13	+1.9	1532.54	1764.35	0.86	44.89	1831.00	1348.18

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FT - SE Actuaries Share Indices — The UK Series

	Oct 26	Day's chge%	Oct 25	Oct 24	Oct 23	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3519.6	-0.5	3537.8	3535.3	3531.5	3029.6	4.02	2.08	14.94	126.41	1398.48
FT-SE Mid 250	3885.3	-0.5	3906.4	3904.8	3912.5	3480.1	3.51	1.84	19.38	119.61	1512.63
FT-SE Mid 250 ex Inv Trusts	3907.3	-0.5	3927.3	3924.7	3933.3	3479.1	3.65	1.89	18.11	125.24	1521.21
FT-SE-A 350	1751.3	-0.5	1760.5	1759.4	1758.6	1521.2	3.91	2.03	15.74	60.89	1420.13
FT-SE-A 350 Higher Yield	1747.3	-0.5	1755.6	1754.5	1754.1	1523.8	4.96	1.82	13.83	76.85	1176.45
FT-SE-A 350 Lower Yield	1759.9	-0.6	1770.0	1768.9	1767.8	1480.5	2.82	2.41	18.37	43.84	1191.77
FT-SE SmallCap	1949.81	-0.3	1956.17	1955.52	1958.38	1774.15	3.34	1.66	22.57	53.84	1569.64
FT-SE SmallCap ex Inv Trusts	1938.72	-0.3	1943.89	1942.97	1945.86	1746.65	3.55	1.74	20.28	56.59	1568.87
FT-SE-A ALL-SHARE	1730.57	-0.5	1739.35	1738.30	1737.81	1508.35	3.86	2.01	16.10	59.21	1426.24

■ FT-SE Actuaries All-Share

	Oct 26	Day's chge%	Oct 25	Oct 24	Oct 23	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	2884.02	-0.7	2905.61	2907.76	2903.04	2691.63	3.91	2.09	15.32	105.02	1208.74
12 Extractive Industries(7)	4050.98	-0.9	4086.89	4090.57	4124.29	3880.09	3.65	2.51	13.63	143.77	1161.51
15 Oil, Integrated(3)	2875.48	-0.8	2898.42	2896.68	2883.39	2653.56	4.08	2.04	15.03	107.92	1233.86
16 Oil Exploration & Prod(13)	1878.56	+0.1	1876.30	1904.51	1917.06	1881.87	2.67	1.49	31.45	49.88	1115.05
20 GEN INDUSTRIALS(278)	1935.58	-0.4	1942.65	1939.41	1941.06	1838.63	4.26	1.83	16.07	70.85	1033.18
21 Building & Construction(38)	900.70	-0.6	906.14	896.56	900.08	1040.35	4.52	1.94	14.27	37.56	740.02
22 Building Matls & Merchs(31)	1660.49	-0.8	1673.13	1656.83	1664.70	1797.11	4.48	2.02	13.84	65.30	820.17
23 Chemicals(23)	2414.31	-0.9	2436.86	2427.42	2438.80	2288.87	3.99	1.82	17.17	80.65	1117.17
24 Diversified Industrials(20)	1750.54	+0.3	1745.47	1741.45	1738.56	1751.28	5.67	1.58	14.00	87.22	951.20
25 Electronic & Elect Equip(36)	2091.89	-0.9	2111.26	2126.03	2126.19	1820.42	3.58	1.93	18.13	61.51	1065.99
26 Engineering(69)	2138.94	......	2138.23	2148.92	2149.92	1771.52	3.42	1.99	18.35	59.70	1271.65
27 Engineering, Vehicles(13)	2519.68	-0.4	2530.11	2520.38	2529.51	2214.21	3.72	1.17	28.78	92.14	1263.00
28 Paper, Pckg & Printing(27)	2885.09	-0.6	2903.58	2886.41	2865.36	2777.85	3.46	2.49	14.52	86.90	1177.35
29 Textiles & Apparel(21)	1534.59	-0.6	1543.77	1537.70	1541.29	1552.73	4.70	1.78	14.92	52.57	908.24
30 CONSUMER GOODS(91)	3468.46	-0.5	3486.74	3475.87	3468.65	2697.88	3.88	1.81	17.76	118.91	1252.80
31 Breweries(16)	2601.72	-0.4	2613.31	2607.04	2611.79	2231.70	3.83	1.99	16.41	82.79	1217.02
32 Spirits, Wines & Ciders(10)	2899.38	-0.4	2910.27	2916.79	2919.95	2780.91	4.12	1.84	16.45	106.86	1019.45
33 Food Producers(24)	2495.94	-0.1	2497.43	2506.25	2515.48	2251.16	4.06	1.80	17.12	82.35	1098.84
34 Household Goods(11)	2630.38	-1.2	2662.31	2632.97	2633.09	2379.50	3.64	2.04	16.81	84.01	984.96
36 Health Care(17)	1984.83	-0.2	1988.20	1972.18	1979.72	1609.29	2.62	1.83	26.07	48.10	1190.49
37 Pharmaceuticals(10)	4771.36	-0.8	4810.04	4777.40	4743.14	2957.97	3.45	1.71	21.22	153.87	1590.90
38 Tobacco(1)	4508.51	-0.6	4531.92	4502.27	4481.10	3824.09	5.32	1.90	12.39	229.23	1090.26
40 SERVICES(226)	2145.60	-0.4	2153.28	2154.00	2154.43	1881.53	3.11	2.05	19.56	59.00	1095.03
41 Distributors(30)	2665.34	......	2666.42	2657.19	2678.55	2499.35	3.73	1.77	18.94	90.36	965.81
42 Leisure & Hotels(29)	2482.47	-0.7	2500.20	2503.96	2522.35	2037.78	3.23	1.84	20.98	73.67	1271.59
43 Media(43)	3336.48	-0.4	3349.42	3370.53	3389.57	2773.46	2.18	2.40	23.88	77.87	1192.84
44 Retailers, Food(16)	2035.73	+0.1	2033.71	2024.58	2008.61	1682.70	3.54	2.41	14.69	58.55	1265.56
45 Retailers, General(44)	1764.51	-0.4	1772.27	1769.91	1767.35	1626.40	3.32	2.13	17.65	49.07	988.69
48 Support Services(37)	1834.68	-0.6	1846.04	1856.21	1653.65	1478.52	2.49	2.42	20.74	35.17	1148.59
49 Transport(20)	2194.80	-0.2	2199.85	2189.19	2172.13	2212.35	3.93	1.29	24.70	72.66	895.65
51 Other Services & Business(7)	1205.53	-0.2	1207.77	1206.26	1197.23	1234.95	4.29	1.40	20.72	38.30	1079.28
60 UTILITIES(36)	2489.19	-0.6	2502.97	2510.56	2519.09	2374.56	4.56	2.01	13.69	95.19	1016.76
62 Electricity(14)	2803.71	-0.1	2806.69	2812.16	2811.38	2464.72	3.97	2.92	10.78	116.19	1247.52
64 Gas Distribution(2)	1609.54	+2.0	1577.54	1648.05	1660.72	1890.29	7.44	0.65	25.88	119.82	807.53
65 Telecommunications(7)	2055.24	-1.6	2087.65	2080.51	2091.74	1998.55	3.99	1.71	18.33	51.49	914.13
68 Water(13)	2083.29	-0.2	2088.23	2076.00	2078.68	1866.34	5.50	2.75	8.27	85.07	1107.27
69 NON-FINANCIALS(654)	1837.52	-0.5	1846.22	1845.25	1845.41	1629.39	3.88	1.93	16.67	62.50	1360.25
70 FINANCIALS(113)	2707.08	-0.6	2723.61	2719.65	2713.56	2138.20	4.11	2.45	12.40	103.73	1130.37
71 Banks, Retail(9)	3779.32	-1.2	3826.12	3806.42	3782.79	2805.26	3.85	2.82	11.53	140.81	1192.00
72 Banks, Merchant(6)	3563.97	-1.3	3612.58	3630.06	3631.72	2648.97	2.60	2.74	17.52	91.76	1113.13
73 Insurance(25)	1370.85	......	1370.91	1382.39	1391.07	1219.58	5.38	2.69	8.65	72.25	1003.75
74 Life Assurance(6)	3207.72	+2.1	3140.80	3158.68	3157.34	2363.20	4.35	1.53	18.73	136.72	1306.83
77 Other Financial(22)	2385.03	-0.3	2392.06	2393.06	2408.75	1816.76	3.70	1.94	17.36	62.49	1326.62
79 Property(45)	1348.41	-0.3	1352.96	1350.62	1352.59	1439.38	4.59	1.33	20.40	46.43	808.12
80 INVESTMENT TRUSTS(133)	2890.89	-0.8	2913.10	2916.17	2921.10	2699.54	2.27	1.06	51.78	53.94	996.08
89 FT-SE-A ALL-SHARE(900)	1730.57	-0.5	1739.35	1738.30	1737.81	1508.35	3.86	2.01	16.10	59.21	1426.24
FT-SE-A Fledgling	1078.56	-0.2	1080.86	1078.10	1077.25	-	2.83	1.28	34.54	26.05	1106.82
FT-SE-A Fledgling ex Inv Trusts	1079.16	-0.2	1081.17	1077.91	1076.46	-	2.96	1.34	31.52	27.02	1108.62

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3528.7	3523.5	3531.7	3521.6	3523.4	3513.5	3518.5	3515.9	3520.2	3532.5	3513.4
FT-SE Mid 250	3901.1	3900.5	3901.4	3899.6	3898.5	3893.2	3890.2	3887.8	3884.9	3901.8	3883.9
FT-SE-A 350	1756.6	1754.4	1757.6	1753.5	1754.1	1749.8	1751.4	1750.1	1751.5	1757.9	1749.0

Time of FT-SE 100 Day's high: 9.53am Day's low: 12.44pm. FT-SE 100 1995 High: 3593.0(18/10) Low: 2954.2(23/1).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	901.9	901.9	901.8	898.7	897.8	895.2	894.0	894.1	892.3	892.3	903.1	-10.8
Pharmaceuticals	4722.1	4720.1	4711.0	4700.3	4703.2	4698.0	4709.7	4710.9	4720.4	4719.9	4756.6	-37.7
Water	2088.5	2083.1	2087.2	2086.5	2083.0	2081.4	2076.6	2077.9	2078.8	2078.8	2083.6	-5.0
Banks, Retail	3870.4	3861.4	3868.3	3836.0	3841.0	3829.0	3837.3	3821.1	3827.9	3827.8	3875.0	-47.4

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL. [illegible] © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1995. © The Financial Times Limited 1995. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 index constituent. All trades are rounded.

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WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 25 / Sch)

BELGIUM/LUXEMBOURG (Oct 26 / Frs.)

CZECH REP (Oct 26 / Korona)

DENMARK (Oct 26 / Kr)

FINLAND (Oct 26 / Mks)

FRANCE (Oct 26 / Frs.)

GERMANY (Oct 26 / Dm.)

GREECE (Oct 26 / Drachma)

ITALY (Oct 26 / Lira)

NETHERLANDS (Oct 26 / Fls.)

NORWAY (Oct 26 / Kroner)

POLAND (Oct 26 / Zloty)

PORTUGAL (Oct 26 / Escudo)

SPAIN (Oct 26 / Pts.)

SWEDEN (Oct 26 / Kronor)

SWITZERLAND (Oct 26 / Frs.)

TURKEY (Oct 26 / Tk Lira)

PACIFIC

JAPAN (Oct 26 / Yen)

AUSTRALIA (Oct 26 / Aust$)

HONG KONG (Oct 26 / H.K.$)

INDONESIA (Oct 26 / Rupiah)

MALAYSIA (Oct 26 / MYR)

NEW ZEALAND (Oct 26 / NZ $)

SINGAPORE (Oct 26 / S$)

SOUTH KOREA (Oct 26 / Won)

TAIWAN (Oct 26 / TW $)

THAILAND (Oct 26 / Baht)

AFRICA

SOUTH AFRICA (Oct 26 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 26 / Can $)

4 pm close

MONTREAL (Oct 26 / Can $)

4 pm close

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal yields. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

INDEX FUTURES

US INDICES

	Oct 25	Oct 18	Oct 11	Year ago
S & P Ind. Div. yield	2.06	2.10	2.09	2.39
S & P Ind. P/E ratio	17.95	17.66	17.74	20.82

NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
Micron	6,810,100	68½	-3
DuPont	6,133,400	61⅛	-3⅛
Dnldson Luf	5,824,000	30	+3
Telefonos	5,283,400	28	-1¼
RJR Nabisco	4,782,400	30	+¾
Citicorp	4,549,900	64⅝	-1⅝
WalMart	3,777,700	22½	—
Chemical Bnk	3,658,200	56⅝	-⅝
Intstate Bmds	3,443,900	17½	-½
MBNA Corp	3,293,900	35	-1

TRADING ACTIVITY

● Volume (million)

	Oct 25	Oct 24	Oct 23
New York SE	433.577	415.402	329.725
Amex	19.525	25.087	19.571
NASDAQ	465.833	462.844	400.405
NYSE			
Issues Traded	3,043	3,030	3,032
Rises	805	1,102	779
Falls	1,524	1,156	1,517
Unchanged	714	772	736
New Highs	123	134	85
New Lows	72	77	68

S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	589.75	581.10	-2.85	585.45	580.40	80,662	190,897
Mar	589.60	585.90	-2.95	590.10	585.10	343	10,237

Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	18030.0	18200.0	+40.0	18030.0	17680.0	29,274	155,817
Mar	17930.0	18240.0	+60.0	17930.0	17760.0	23	5,107

Open interest figures for previous day.

● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ... day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; ... highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached ... brackets are previous day's). ¶ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Thursday, October 26, 1995

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	5.1m	339	-9
Fujitsu	5.0m	1210	-10
Tokuyama	4.8m	797	-1
Mitsubishi Heavy	4.5m	781	-2
MKK Corp	4.4m	259	-3
Kawasaki Steel	3.7m	345	-6
Toshiba Corp	3.7m	750	-7
Hitachi	3.4m	1060	
Nippon Sheet Glass	3.4m	427	+1
Mitsubishi Elec	3.3m	755	-27

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close October 26

1995 High	1995 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19	12⅛	AAR	0.48	2.8	23	86	17½	17¼	17⅜	
46¼	35	AMP	0.92	2.4	20	4265	39⅛	38½	38½	-⅞
60¼	53⅜	AMR			15	7181	66½	64¼	64½	-1¾
47⅞	39⅛	ASA	1.71	4.6	24	1302	38⅛	d36½	36⅞	-2⅜
44¾	30¾	AbbtL	0.84	2.1	19	10568	40⅜	39½	39⅝	-⅝
18⅞	12	Abitibi Pr	0.40	2.5	8	2294	16¼	15½	15⅞	-⅜
27⅞	21	ABM Ind	0.60	2.3	14	26	26⅝	26½	26⅝	-⅛
17½	13½	Acpincsh			10	1011	15	14⅝	14¾	-¼
35⅞	21⅞	ACE Ltd	0.56	1.6	8	883	34⅝	34	34	-¾
9⅞	8⅞	ACM Gvt In	0.90	9.5	8	157	9⅝	9⅜	9½	
7¾	6½	ACM GvOpp	0.66	8.9		141	7⅜	7⅜	7⅜	-⅛
7½	5¾	ACM Gvt Sp	0.75	10.7		1086	7	6⅞	7	+⅛
8¾	7¼	ACM Gvt Se	0.90	10.3		535	u8¾	8⅝	8¾	
9½	7⅝	ACM Man	0.90	10.3		266	8¾	8⅝	8¾	+¼
29¼	10¼	AcmeClv	0.48	2.1	11	54	23½	22⅝	22¾	-1
38¾	8¼	Acme Elect			76	160	9⅝	8⅞	9⅛	-¼
34½	23¾	Acordia	0.72	2.8	12	80	26¼	26	26⅛	
19½	8⅝	Actava	0.36	2.1	12	1558	17⅞	16¾	16⅞	-⅞
16¾	10⅛	Acuson			30	102	11¾	11⅝	11¾	+⅛
18⅞	15⅝	Adams Expr	0.48	2.6	0	139	u18⅞	18½	18½	-¼
38⅞	24⅝	AdvMic			8	16806	25¼	d23⅞	24⅞	-⅝
9½	5	Advest Grp	0.16	1.8	16	100	9¼	9	9	-¼
25¾	16½	Advo Inc	0.10	0.4	20	1102	25⅞	25	25¼	+½

Continued on next page

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4 pm close October 26

NYSE COMPOSITE PRICES

Continued from previous page

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. ex-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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AMEX COMPOSITE PRICES

4 pm close October 26

NASDAQ NATIONAL MARKET

4 pm close October 26

AMERICA

Profit-taking, weakness in bonds hit Dow

Wall Street

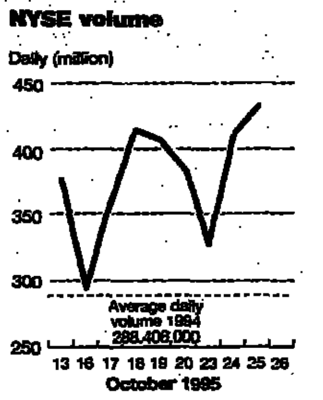
A second day of profit-taking combined with weakness in the bond market to send US share prices sharply lower at midsession yesterday, *writes Lisa Bransten in New York.*

Just after 2pm the Dow Jones Industrial Average was down 39.38 at 4,714.30. At 1pm the Standard & Poor's 500 was off 3.28 at 579.19 and the American Stock Exchange composite had shed 2.69 to 519.57.

The technology-rich Nasdaq composite gave up 8.84 at 1,017.63. Volume on the NYSE came to 235m shares.

Bond prices slipped in early trading after the Commerce Department released a set of *much stronger than expected*

NYSE volume



figures on durable goods orders. Those figures dampened recent speculation that the Federal Reserve might lower interest rates at the November 15 meeting of its open market committee.

J.P. Morgan, the US commercial bank, posted the biggest percentage loss of the Dow 30 index as investors continued to batter financial shares. *Until this week financial companies* had been among the market's strongest performers. J.P. Morgan shares lost another $2¾ on top of the $5¼ they had lost since October 18, bringing the shares to $75.

Chemical Banking fell $2¼ to $54⅛, Chase Manhattan Bank lost $2½ at $54¼ and NationsBank retreated $1¼ to $64⅞.

Technology shares, which had also been among the market leaders, *were mixed yesterday.* Netscape fell $5¼ to $82½ after climbing to its highest level on Tuesday since the initial public offering in August. Spyglass, a rival provider of internet software, lost $1 at $40⅞ and *UUNET*, a provider of internet services, relinquished $2⅞ at $48.

Among other technology shares, Intel shed $1 to $65¼, Adobe Systems was 2\frac{5}{16}$ lower at 54\frac{3}{16}$ and Cyrix gave up $1¼ at $32⅞, *while Microsoft added* $⅛ at $96 and Sun Microsystems climbed $1 to $72⅞.

Several shares moved after reporting quarterly results. Delta Air Lines, for instance, gave up $1¾ or 2 per cent at $64⅝ *after revealing first-quarter* net income of $2.57 per share, 4 cents a share behind the mean analyst estimate. Xerox tumbled $3⅝ or 2.7 per cent, bringing the shares to $131 after reporting earnings of $1.93 per share, 14 cents lower than expectations.

Anheuser Busch moved forward nearly $1⅞ or 3 per cent to $66⅞ on news that it would sell its Eagle Snacks division and the St Louis Cardinals baseball team.

Canada

Toronto was virtually holding its own at 1pm, with a 4.66 loss in the TSE 300 composite index in trading volume up from 35.1m to 36m shares. But less than an hour later the key index was 18.37 down at 4,313.10, *reflecting the deterioration in the Dow.*

The fertiliser industry suffered, a dip in earnings at Potash Corp of Saskatchewan leaving the shares C$4⅞ lower at C$92¼, dropping Agrium C$2 *to C$53$ in sympathy and leaving* Sherritt C$⅞ lower at C$18, although the latter announced a restructuring considered positive for the company.

On the upside, the information systems consulting group CGI *was ahead 60 cents at* C$3.50 in very light trading after peaking at C$4.50 on the news of a C$18.4m injection from Bell Canada.

EUROPE

Philips plunges 12% after third-quarter results

Philips was sold heavily in **AMSTERDAM** after the electronics group came in with third-quarter results well outside consensus estimates. The shares plunged by Fl 8.20 or 12 per cent to Fl 60.10 in volume of more than 23m shares. Polygram, a *Philips* subsidiary, retreated Fl 4.40 or 4.3 per cent to Fl 98.10.

Although Philips reported an 18.5 per cent rise in third-quarter profits to Fl 539m, this was below consensus forecasts of some Fl 550m.

Analysts pointed in particular to the disappointing performance from the consumer products division, and especially the weak demand seen for video recorders. The company, in part, blamed the hot summer for low sales of consumer products, suggesting *that this may have kept people* out of the shops. However, sales of semi-conductor components remained strong.

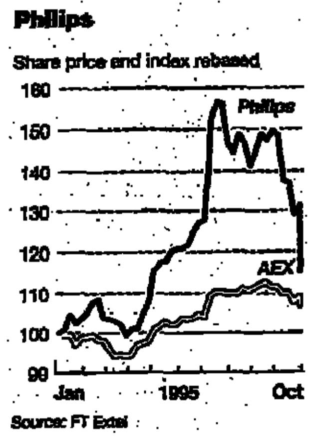
The AEX index lost 6.84 or 1.5 per cent to 448.39. Chemicals also met selling pressure *following disappointing ICI* results in London: DSM fell Fl 4.50 or 3.6 per cent to Fl 121.50 and Akzo Nobel Fl 2.80 to Fl 182.20.

FRANKFURT, weak earlier in the day, edged up after the dollar rose on the hospitalisation of Mr Boris Yeltsin, the Russian president. The Dax index ended 2.00 higher at an Ibis-indicated 2,142.74.

Turnover fell from DM7.2bn *to DM6.1bn.* Analysts seemed absorbed, rather than excited, by the main corporate news, nine-month figures from Deutsche Bank and Commerzbank: the former was seen as disappointing in profits terms; the latter offered the prospect of a higher dividend.

The stocks closed 99 pfgs lower at DM63.32 and 30 pfgs off at *DM324.10 respectively.* But Mr Jim Hyde at Williams de Broë said that while Commerzbank's operating profits

Philips



Source: FT Extel

looked impressive, its profits before provisions had risen only 0.7 per cent in the third quarter after a 6.1 per cent gain in the first six months: Deutsche, *meanwhile, had* produced a 4.9 per cent gain after a 23 per cent first-half decline.

Merck and Volkswagen rose DM1.15 to DM59.25 and DM8.40 to DM437.40 and extended Wednesday's strength, VW helped by strong German car registration figures for September. Metro's rethink of its merger scheme involving Kaufhof and Asko left the latter DM44 higher at DM800.

MILAN, *confident* that the government led by Mr Lamberto Dini, the prime minister, would survive a motion of no confidence, moved briskly forward. As the market closed, with voting in parliament *under* way, *the* Mibtel index showed a session's rise of 175 to 9,285, down from an intraday peak of 9,346.

Mr John Stewart at InterEuropa in Milan commented that after the Reformed Communists had said that they would not vote against the government, it became clear that the motion inspired by the centre-*right coalition would fail.*

He believed that Mr Silvio Berlusconi's credibility had been damaged by bringing the vote, and the failure to push ahead with a snap election would weaken his position.

Ferruzzi Finanziaria was again suspended during the session due to excessive rises, before closing L241 higher at L1,441. Dealers believed that two groups of banks, one led by San Paolo di Torino and the other by Mediobanca, were now fighting for control of the group.

Montedison, a unit of Ferfin, rose L27 to L1,103; San Paolo gained L38 to L8,435 and Mediobanca L263 to L10,350.

Olivetti, which reported a 15 per cent increase in nine-month sales, and said that its L2,257bn capital increase was likely to begin later next month, fell L21 to L1,185.

PARIS contended with the *fright about President Yeltsin's* health and domestic worries concerning further speculative pressure on the French franc. The *CAC-40* index ended down 10.00 at 1,754.12 in turnover of some FFr4bn.

L'Oreal slipped FFr68 or 5.7 per cent to FFr1,134 in a negative reaction to nine-month profits figures which came in lower than expectations.

The market also had its first chance to react to Wednesday's post-bourse deal between Alcatel and Havas. Both shares lost ground on the news, with the former down FFr11 at FFr409 and the latter losing FFr10.10 to FFr311.60.

ZURICH was a mixed bag. *Brown Boveri and Sandoz fell* on profit-taking after their third-quarter reports, by SFr17 to SFr1,309 and SFr3 to SFr952, as Nestlé, leading the actives list, recovered SFr17 to SFr1,153 on rumours that brokers *had* issued buy recommendations. Sulzer, however, dropped SFr31 to SFr707 after Wednesday's profits warning.

MADRID was disturbed by the Yeltsin scare, ignored the dollar and left the general index 1.94 lower at 292.99.

BRUSSELS worried about the dollar's future course but ended flat with the Bel-20 index up 0.16 at 1,423.74. The announcement of a Union Minière *news conference today to* produce a profit enhancement plan, which was expected to include major job cuts, left the non-ferrous metals group BFr35 higher at BFr1,845.

STOCKHOLM hit cyclicals again, worried about the stronger krona, and the Affärsvärlden General index fell 22.8 or 1.3 per cent to 1,706.1. **HELSINKI** was more worried about forestries, Repola losing *FM2.50 at FM80 and Kymmene* FM5 at FM111 as the former confirmed a decision to go ahead with a new paper mill. The Hex index shed 15.59 to 1,918.45. **OSLO** saw devastation in Norske Skog, *another forestry company, down* NKr11 at NKr173, and in PGS, the seismic services company, which plunged NKr24.50 or 10.2 per cent to NKr115.50 on doubts over the strength of its third-quarter results. The all-share index fell 11.48 to 708.32.

FT-SE Actuaries Share Indices THE EUROPEAN SERIES

Oct 26 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1373.58	1371.47	1370.95	1371.61	1371.88	1375.20	1375.53	1374.41
FT-SE Eurotrack 200	1502.06	1498.31	1496.39	1497.91	1495.37	1501.18	1498.34	1499.34

	Oct 25	Oct 24	Oct 23	Oct 20	Oct 19
FT-SE Eurotrack 100	1373.87	1363.11	1352.04	1380.47	1399.54
FT-SE Eurotrack 200	1499.02	1490.81	1479.98	1500.58	1516.87

Base 1000 (26/10/90); High/day: 100 - 1378.34; 200 - 1502.63 Low/day: 100 - 1369.59 200 - 1494.90 † Partial

Written and edited by William Cochrane and John Pitt

ASIA PACIFIC

Nikkei weaker, Bombay falls 2% on currency worries

Tokyo

Technical selling pushed equities lower and the Nikkei average posted its fourth consecutive decline, *writes Emiko Terazono in Tokyo.*

The 225-share index was down 244.13 *or 1.4 per cent at* 17,726.68 after moving between 17,681.75 and 17,976.09. Heavy selling in the futures market in Singapore and Osaka by brokers prompted arbitrage selling; but buying by public funds *in the afternoon helped* to cut some of the losses.

Volume rose from 303m shares to 350m. Traders said that the bulk of activity was technical, most investors remaining absent due to the decline of high-technology shares on Wall Street on Wednesday. Dealers were also inactive on the last trading day for October settlements.

The Topix index of all first section stocks fell 18.62 or 1.3 per cent to 1,415.04, and the Nikkei 300 by 3.57 to 265.17. Declines led advances by 797 to 218, with 175 issues unchanged. In London the ISE/Nikkei 50 index eased 0.84 to 1,201.92.

Some Japanese brokers blamed the recent decline on a slowdown in foreign buying activity. With overseas investors owning 9 per cent of the market, or 15 per cent of the free float, analysts said that further purchases by foreigners were expected to be limited. "Foreigners will not turn around and sell, but they will not be buying as much in the second half as they did in the first," said Mr Tom Hill, strategist at SBC Warburg.

Asahi Bank slid Y40 to Y990 on rumours of derivatives-linked losses. Other banks were also weak on worries over the expanding "Japan premium", and the sector fell 2.1 per cent. Fuji Bank lost Y80 to Y1,890 and Dai-Ichi Kangyo Bank Y50 to Y1,750. Daiwa Bank was unchanged at Y622.

Steelmakers fell on heavy selling: Nippon Steel, the day's most active issue, shed Y9 to Y339 and NKK Y3 to Y259.

Brokers took profits on Fujitsu, off Y10 at Y1,210. The stock's fall prompted selling in other high-technology stocks, with Mitsubishi Electric down *Y27 to Y755 and NEC Y20 to* Y1,360. Sony receded Y150 to Y4,940, falling below Y5,000 for the first time since August 2.

In Osaka, the OSE average slipped 171.51 to 19,249.22 in volume of 44m shares.

Roundup

Brokers blamed a panic reaction to the slide in the rupee as **BOMBAY**'s BSE 30-share index ended 77.53 or 2.2 per cent *down at 3,408.67, having* touched 3,390.81.

Foreign fund managers had been the main buyers on Indian bourses over the past few months, said an analyst, and a two-month fall of about 12 per cent in the rupee had eroded their investments.

Selling was also encouraged by reports that the Calcutta bourse had imposed restrictions of trading, including 20 per cent daily margins on sales, and 10 per cent on purchases in six leading stocks, to curb excessive speculation.

KARACHI had problems of its own on fears that the Mohajir National Movement was about to call a protest strike in the city next week. The KSE index dived 26.04 or 1.6 per cent to 1,565.18 in volume of 12m shares.

KUALA LUMPUR noted both foreign and domestic retail buying activity as equities extended their rebound into a second session, and the KLSE composite index rose 10.81 to 966.68, *volume increasing from* 64m to 111.3m shares.

SEOUL was slightly firmer, the slush fund scandal embroiling the former South Korean president Roh Tae-woo subsiding into the background, although state radio quoted prosecutors as saying that they had found further slush money linked to Roh.

The composite index closed 3.27 higher at 1,001.15, companies linked by marriage to Roh regaining some of their recent losses. Sunkyong rose Won200 to Won20,600, and Dong Bang by Won500 to Won28,200.

SHENZHEN was discouraged by official reports that the central bank planned to maintain strict controls on credit until the end of the decade.

The A index retreated 2.5 per *cent to 144.64 as turnover fell* to Yn911m from Yn1.5bn. The B index dipped 0.08 to 72.20 in HK$9.5m turnover.

SINGAPORE *featured a fall* of 30 cents to S$6.95 in Sembawang, the shipping group hitting a new 1995 low on news that it was taking a third party to court after early termination of a S$200m contract.

The Straits Times Industrial index saw a late rebound, but still finished 4.11 lower at 2,100.47. Aztech Systems plunged 11.5 cents to 96.5 cents in active trade of 11m shares on news that it sold its stake in Reveal Computer to Creative Technologies.

COLOMBO closed marginally ahead on foreign buying of a blue chip finance stock, the CSE all-share index gaining 1.71 at 632.40. DFCC rose Rs2.75 *to Rs298. But late in the day* there was news that Tamil Tiger guerrillas had killed at least 36 villagers. This was the fifth attack of its kind since Saturday.

SYDNEY was unable to sustain Wednesday's gain and the All Ordinaries index closed 4.4 down at 2,086.40 after a day's low of 2,079.50. Turnover was *A$612m with 211.2m shares* traded.

News Corp fell 11 cents to A$6.61 on the day's biggest volume of 56.8m shares, as US institutions turned sellers.

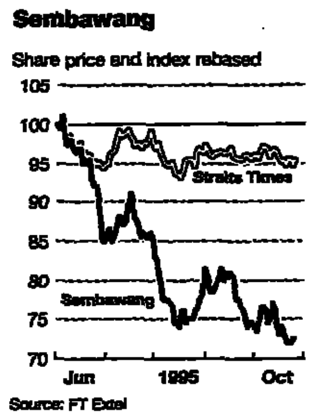
Commonwealth Bank slid 20 cents *to A$9.98 following* the annual meeting at which the company forecast "reasonable" earnings growth over the next year. There were also rumours that the government would unload its holding of shares *worth A$4bn in one tranche.*

HONG KONG declined in dwindling volume, with investors influenced by Wall Street's overnight fall. The Hang Seng index receded 66.58 to 9,774.48 as turnover slid to HK$2.6bn from HK$3.4bn.

Cathay Pacific Airways was unchanged at HK$11.45 after three straight days of losses *prompted by news that a mainland carrier was likely to get a* Hong Kong operator's certificate in early 1996. But parent group Swire Pacific suffered the day's sharpest fall, losing HK$1.75 at HK$58.50.

BANGKOK *saw late buying* of finance stocks but the SET index was unable to recoup earlier losses and ended 4.38 off at 1,270.14 in turnover of Bt6.3bn. The finance sector rose 1 per cent: Finance One *made Bt2 to Bt142 and* National Finance Bt3 to Bt114.

Sembawang



Source: FT Extel

Latin America slides

Latin America's financial markets were in freefall at midsession as the Mexican peso saw its largest decline since March.

MEXICO CITY was battered by currency weakness, higher domestic interest rates and a generally negative outlook regarding the economy. At midday the IPC index was down 68.21 or 3 per cent at 2,137.83. Traders said that a higher than expected October inflation figure also contributed to the retreat.

SAO PAULO followed suit and at 1pm the Bovespa index was down 2,603 or 6 per cent at 40,835. Turnover was moderate at R$245m ($254.8m).

Speculation was fuelled by worries regarding the health of financial institutions. On Wednesday, the market was upset by unconfirmed rumours that some brokerage houses were facing liquidity troubles.

BUENOS AIRES also encountered selling, especially from foreign institutions, but turnover was low. The Merval index was down 14.52 or 3.6 per cent at 386.44 by midsession, its lowest level since June.

The heaviest losers were seen among the main stocks, such as Telefonica and Telecom, down by a respective 5.5 per cent and 5.1 per cent. Siderca, a steel maker, was standing 4.1 per cent weaker.

S African industrials retreat

Share prices in Johannesburg finished lower, with golds softer on a lack of news and industrials well down as profits were taken after Wednesday's strong run.

Dealers said that the weakness was largely due to consolidation after futures-driven buying earlier in the week.

The overall index lost 39.2 to 5,819, the industrials index shed 64.9 to 7,523.3 and golds declined 11.7 to 1,305.6.

Among individual features, *Anglos fell R4 to R212*, SAB was down R2 to R123 and Goldfields dipped R1 to R97.

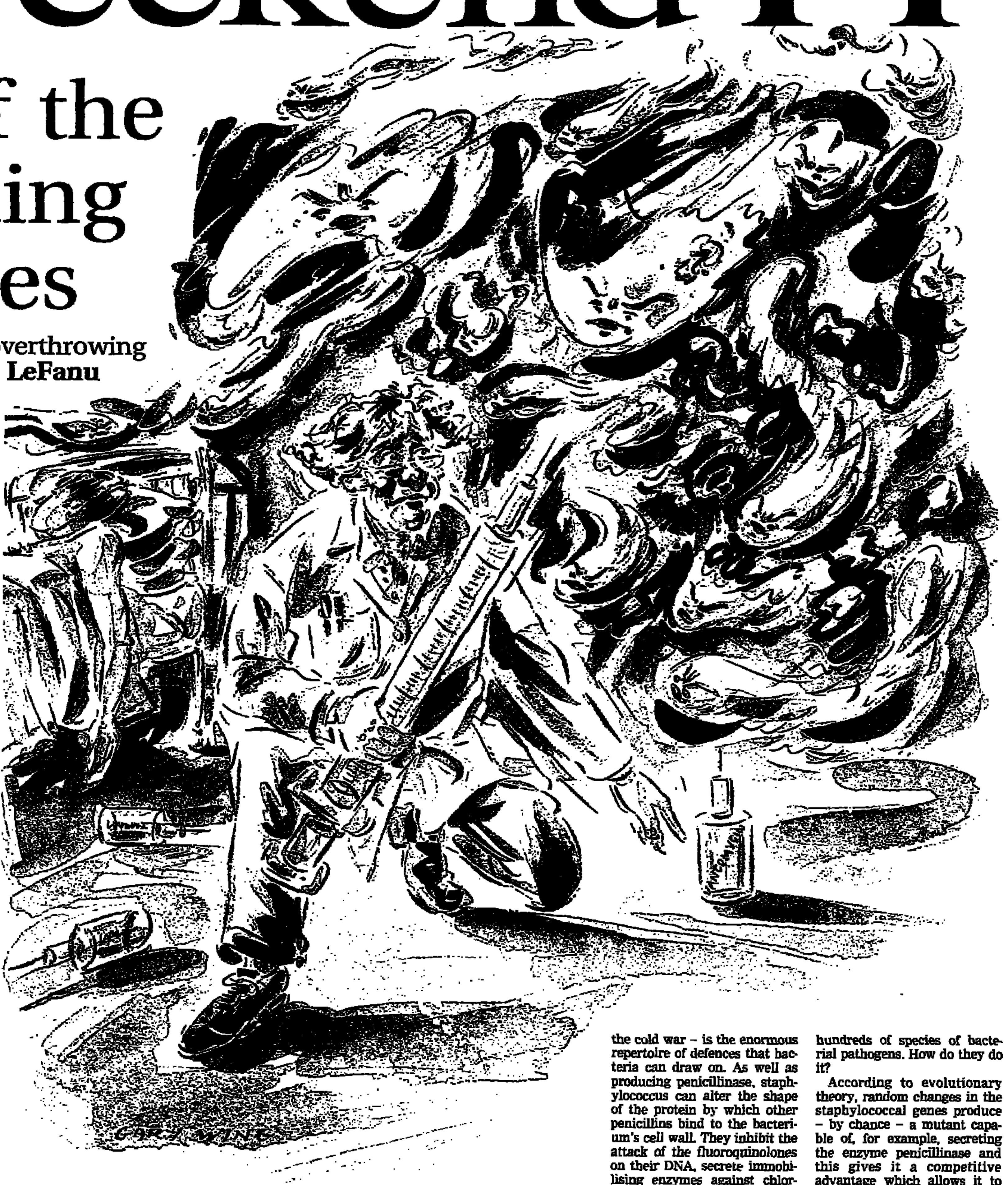
FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	WEDNESDAY OCTOBER 25 1995								TUESDAY OCTOBER 24 1995					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (82)	181.32	0.9	170.20	116.11	131.38	161.04	0.6	4.03	179.77	168.53	113.84	129.64	160.15	191.01	157.95	170.41
Austria (27)	171.60	0.6	161.07	109.88	124.33	124.29	1.1	1.35	170.56	159.89	108.00	122.99	122.94	199.26	167.48	180.52
Belgium (35)	195.80	0.2	183.78	125.38	141.86	138.44	0.7	3.78	195.36	183.14	123.71	140.87	137.47	201.12	164.78	168.75
Brazil (28)	142.81	-3.3	134.04	91.44	103.46	252.69	-3.3	1.68	147.62	138.38	93.47	106.44	261.20	-	-	-
Canada (100)	135.83	0.3	127.49	86.97	98.41	134.38	0.0	2.74	135.44	126.97	85.76	97.66	134.39	150.83	121.81	135.79
Denmark (33)	285.47	0.5	267.95	182.79	206.83	210.26	1.0	1.54	284.00	266.23	179.83	204.79	208.25	295.99	238.81	255.76
Finland (25)	230.56	-1.0	216.41	147.64	167.05	203.14	-0.9	1.58	232.84	218.28	147.44	167.90	204.93	276.11	171.13	197.01
France (100)	171.01	1.6	160.51	109.50	123.90	131.41	2.1	3.34	168.41	157.87	106.64	121.43	128.75	191.17	157.79	168.16
Germany (59)	160.03	1.0	150.21	102.47	115.94	115.94	1.4	2.09	158.50	148.58	100.37	114.29	114.29	167.74	135.39	140.86
Hong Kong (55)	378.58	0.5	355.35	242.42	274.29	375.84	0.5	3.87	376.66	353.10	238.51	271.61	373.91	391.00	277.40	375.91
Ireland (16)	245.46	0.0	230.40	157.18	177.85	213.16	0.1	3.64	245.51	230.16	155.47	177.04	213.03	250.55	195.34	205.68
Italy (58)	68.73	0.3	64.51	44.01	49.80	82.93	0.3	1.83	68.52	64.23	43.39	49.41	82.72	82.71	65.45	76.79
Japan (483)	143.14	-1.5	134.35	91.66	103.71	91.66	-0.4	0.83	145.37	136.27	92.05	104.82	92.05	164.82	136.95	162.36
Malaysia (108)	468.86	0.1	440.07	300.22	339.69	457.20	0.5	1.80	468.29	438.99	296.53	337.68	454.89	561.86	398.16	545.78
Mexico (18)	940.21	-4.3	882.50	602.04	681.19	6965.07	-3.8	1.99	982.67	921.19	622.24	708.58	7262.82	2176.59	847.81	2176.59
Netherland (19)	258.42	0.2	242.57	165.48	187.24	184.06	0.6	3.55	257.89	241.76	163.30	185.96	182.90	263.99	207.60	218.73
New Zealand (14)	81.62	-0.4	76.62	52.27	59.14	66.09	0.1	4.32	81.95	76.82	51.89	59.09	66.01	85.49	69.56	73.92
Norway (33)	235.42	0.3	220.97	150.75	170.56	197.12	0.5	2.12	234.75	220.06	148.65	169.27	196.14	243.79	192.92	206.44
Singapore (44)	369.41	0.3	346.74	236.55	267.65	241.39	0.6	1.70	368.29	345.26	233.21	265.58	240.07	414.26	313.94	396.91
South Africa (45)	366.19	0.7	343.71	234.48	265.31	290.82	0.7	4.00	363.70	340.95	230.30	262.26	288.90	368.62	281.06	338.46
Spain (38)	147.58	1.1	138.52	94.50	106.92	135.50	1.5	4.17	145.95	136.82	92.42	105.24	133.46	160.51	124.10	139.83
Sweden (48)	314.72	-0.2	295.41	201.53	228.03	307.60	-0.8	1.94	315.30	295.58	199.66	227.37	310.06	320.49	225.80	241.05
Switzerland (41)	222.41	0.1	208.76	142.41	161.14	156.49	0.6	1.70	222.10	208.20	140.64	160.15	155.61	223.54	158.38	164.47
Thailand (46)	161.04	-1.2	151.16	103.12	116.68	156.62	-1.1	2.60	162.98	152.78	103.20	117.52	158.51	-	-	-
United Kingdom (206)	225.41	0.0	211.58	144.34	163.32	211.58	0.1	4.05	225.47	211.36	142.77	162.59	211.36	227.31	187.07	199.80
USA (503)	238.75	-0.7	224.10	152.88	172.98	238.75	-0.7	2.47	240.38	225.34	152.22	173.34	240.38	242.04	182.33	188.33
Americas (849)	217.39	-0.7	204.05	139.20	157.50	182.55	-0.7	2.47	218.93	205.23	138.63	157.86	183.85	-	-	-
Europe (736)	194.12	0.4	182.20	124.30	140.64	151.86	0.8	3.11	193.37	181.28	122.45	139.44	150.82	199.02	163.04	171.51
Nordic (139)	285.62	-0.1	268.09	182.89	206.94	238.84	-0.4	1.84	286.03	268.14	181.12	206.25	239.75	295.02	215.79	232.32
Pacific Basin (832)	153.78	-1.2	144.34	98.47	111.42	102.06	-0.3	1.28	155.61	145.88	98.54	112.21	102.34	173.52	145.93	171.39
Euro-Pacific (1570)	170.49	-0.4	160.03	109.17	123.52	124.58	0.2	2.15	171.25	160.54	108.44	123.49	124.48	178.33	154.73	171.23
North America (603)	232.39	-0.7	218.13	148.81	168.37	231.79	-0.7	2.48	233.90	219.27	148.11	168.66	233.32	235.91	178.96	185.06
Europe Ex. UK (532)	173.21	0.6	162.58	110.91	125.49	135.11	1.0	2.57	172.14	161.37	109.00	124.12	133.83	179.46	148.45	152.44
Pacific Ex. Japan (349)	254.50	0.4	238.88	162.96	184.39	223.67	0.5	3.28	253.44	237.59	160.48	182.76	222.66	268.72	211.19	259.48
World Ex. US (1761)	171.28	-0.4	160.77	109.68	124.10	128.12	0.1	2.20	172.05	161.28	108.94	124.06	127.96	178.73	155.42	173.22
World Ex. UK (2058)	188.74	-0.6	177.15	120.85	136.74	155.02	-0.2	2.11	189.66	177.98	120.22	136.90	155.36	191.32	163.46	175.02
World Ex. Japan (1781)	219.21	-0.2	205.76	140.37	158.82	203.61	-0.1	2.79	219.66	205.92	139.10	158.40	203.84	221.43	178.95	187.20
The World Index (2264)	191.94	-0.5	180.16	122.90	139.06	158.96	-0.2	2.30	192.97	180.90	122.19	139.15	160.26	194.25	165.92	177.20

CONSTITUENT CHANGE 26/10/95: Name change: Renison Goldfields Consolidated to RGC Ltd (Australia). Latest prices were unavailable for this edition

Weekend FT



Return of the man-killing microbes

Bacteria are on the point of overthrowing antibiotics, reports James LeFanu

In 1967 William Stewart, the US Surgeon, General, told a White House meeting: "The time has come to close the book on infectious diseases." At the time it certainly seemed he was right. Social progress and medical ingenuity had thrown an apparently unscaleable wall around the human species to protect it from its oldest foes.

The miracle of antibiotics had emptied the hospital wards which 20 years earlier had been filled to overflowing with children dying of pneumonia, meningitis and typhoid. The extraordinary thing in retrospect was how rapidly the final victory had come – vindication, if any were needed, of the limitless power of modern medicine.

Sweet victory indeed, but, as it has turned out, pure hubris. Within 20 years, bacteria and the infectious diseases they cause have bounded right back up the medical agenda and into the public consciousness. Microbes have turned out to be much more resilient than anyone could have imagined: capable, in a myriad of different ways, of defending themselves against the antibiotic onslaught.

The implications were spelt out by microbiologist Alexander Tomasz of New York's Rockefeller University at last year's conference of the American Association for the Advancement of Science. The scale of bacterial resistance to antibiotics was, he said, "a medical disaster that will return physicians to the days before penicillin, when the most trivial of infections could turn lethal for lack of effective drugs".

The problem is especially apparent in hospitals – particularly intensive care units – which are happy breeding grounds for bacteria. The Journal of the American Medical Association recently reported a survey of 10,000 patients in 1,500 hospitals across Europe which found that not only were half of them on antibiotic treatment for infections they had acquired in hospital, but that in two-thirds of these the causal organism was resistant to several different antibiotics.

This rapid resurgence of the threat of infectious disease has been blamed on doctors themselves, who, it is claimed, irresponsibly dish out antibiotics like sweets, often for minor illnesses, without bothering to identify which bacteria – if any – are responsible and whether they are sensitive to the drug being prescribed.

This certainly does happen, but the real story behind bacterial resistance to antibiotics touches on more profound issues. Bacteria, it now appears, have an extraordinary facility to adapt genetically to external threats. This not only guarantees their own survival but is also, paradoxically, indispensable for the survival of all living organisms.

Consider the bacterium staphylococcus, which both opens and closes the all too brief historical period when doctors believed they had triumphed over infectious diseases.

In February 1941, Police Constable Albert Alexander was desperately ill in Oxford's Radcliffe Infirmary. Two months previously a small sore caused by staphylococcus had developed on the side of his mouth. It had spread rapidly and relentlessly to his face and scalp, destroying his left eye which had had to be surgically removed.

The infection had now spread to the right shoulder and an X-ray of his chest revealed multiple abscesses in the lungs. PC Alexander was the first human to receive penicillin – a tiny dose of 200mg, given as one injection into his buttock. Within 24 hours, he was clearly getting better. His temperature came down and the suppurating skin infection began to heal.

But the quantity of penicillin available was so limited that, despite the diligence of his doctors in extracting minute quantities of the precious substance from his urine and reinjecting it back into the blood stream, the staphylococcus regained the upper hand and a month later PC Alexander was dead. But his partial response to penicillin perfectly symbolised the crucial transitional moment between man's susceptibility to the power of bacteria and his ability to defeat them.

Penicillin soon became available in sufficient quantities and it saved many lives in the closing years of the war, but within only three years the staphylococcus had fought back.

A mutation emerged which produced an enzyme, penicillinase, that dissolved the chemical structure of penicillin, rendering it useless.

In response, the drugs industry came up with a semi-synthetic penicillin, methicillin. But a new generation of staphylococcus became resistant to that, along with eight other commonly used antibiotics. Then came the fluoroquinolones and the aminoglycosides, Yet again staphylococcus fought back.

Hundreds of antibiotic compounds have been developed over the past 50 years but there are now strains of staphylococcus which are resistant to all but one – vancomycin. When, as seems inevitable, a strain of staphylococcus becomes resistant to this as well, the post-antibiotic era will have arrived – unless a new cure is found in time.

Central to the struggle for supremacy between staphylococcus and the drugs industry – so similar to the arms race of the cold war – is the enormous repertoire of defences that bacteria can draw on. As well as producing penicillinase, staphylococcus can alter the shape of the protein by which other penicillins bind to the bacterium's cell wall. They inhibit the attack of the fluoroquinolones on their DNA, secrete immobilising enzymes against chloramphenicol, and dispose of tetracycline by literally pumping it out.

These defence mechanisms are not unique to staphylococcus. They have also been encountered in each of the hundreds of species of bacterial pathogens. How do they do it?

According to evolutionary theory, random changes in the staphylococcal genes produce – by chance – a mutant capable of, for example, secreting the enzyme penicillinase and this gives it a competitive advantage which allows it to survive and prosper. But, as George Griffin, professor of Microbiology at St George's Medical School, points out, such spontaneous genetic

Continued on Page II

CONTENTS

Joe Rogaly

Bovver boys wade in

The Tories are putting dirty blue water between themselves and Labour

Soon, possibly next year, we will see whether British voters are as moderate as most of them say they are. The Conservative government imagines it can win a fifth term by cutting taxes and putting on its bovver boots. The latter is footwear designed to kick foreigners, particularly those that are down. Believe me, that seems to be what they are contemplating. Tory European, social and immigration policies have been repackaged to appeal to the base and tribal instincts that lurk in every electorate's heart.

The silky prose of the administration's leading demagogues barely disguises the sentiments being expressed. Potential Conservative supporters know what the Michaels Howard and Portillo, with offstage assistance from Peter Lilley, are trying to tell them. They can hear the essence of the message by listening to any loud-mouthed National Front taxi-driver shouting off his hangover in a traffic jam.

It is a distressing strategy. If there is such a thing as electoral justice, it will lead to a wipe-out of the Tories such as befell their Canadian counterparts in 1993. Happily, the case for fancying that such a political cataclysm might lie ahead gets stronger as the time before a general election must be held (17 months) grows relentlessly shorter.

Two further pieces of evidence supporting this expectation have just turned up. The Mori poll in The Times on Thursday put Labour on 56 per cent, five points ahead of the previous month and 29 points ahead of the Conservatives. The figures almost exactly match those of the NOP results in last weekend's Sunday Times, in which 69 per cent of respondents described themselves as moderate.

Yes, yes, I know. Such apparently precise numbers should not be taken too seriously. Some of us foolishly became involved in poll-based mathematical computations during the April 1992 election. The lesson, that polls are straws in the wind, not accurate forecasts, was painfully learned.

That said, the last two or three years' run of figures from the polling organisations is remarkable for its consistency. Britain is now so accustomed to Labour leads that it is difficult to conjure up any different circumstance. The consequent general perception that the Tories are on their way out is supported by their abysmal performance in by-elections and their near-elimination as a serious force in local government.

There are also the changes in the Labour party. It is no longer voter-repellent. I have few high hopes of Tony Blair's administration. People might be saying in 1998 that it is essential to get Labour out. But that possible let-down lies ahead. The question of the moment is whether the Tories can recover. The signs are that it is unlikely.

The rot started in September 1992, when sterling was ejected from the exchange rate mechanism of the European

> Mr Major is a centrist but on some issues he seems to be the captive of his party

monetary system. The government was made to look foolish. The Conservatives split into pro-and anti-European wings. Many MPs expressed disloyalty to the party leader, John Major. The anti-Labour press turned on the government. The Tories have not yet recovered.

So far nothing they have tried has worked. Mr Major established himself as undisputed party leader at the beginning of the summer. His backbenchers united behind him. He trimmed his European sails to the sceptics' near-satisfaction. A decent man on racial matters, he has stood aside while less scrupulous colleagues have sought to put dirty blue water between the government and the opposition. A systematic attempt to tarnish Labour's image was made at the recent Conservative conference. The party activists were enthused. The press is beginning to come round. The result? To date – zilch.

The consolation for the Tories is that there may still be time. It would be surprising – indeed, alarming – if their strategy did *not* begin to reduce Labour's lead. The Queen's Speech setting out a legislative programme for the new parliamentary year will indicate what real substance there is behind the bovver-boy rhetoric of recent weeks. There is also the Budget to come. It must surely begin to reduce taxation, which would in normal conditions make the government less unpopular.

All this is well-known. Yet Britain's Conservatives might be about to make the same mistake as Labour did when it ran a left-leaning campaign under Michael Foot in 1983. Mr Major is a centrist – indeed occasionally leftish in social matters – but on some issues he seems to be the captive of his party. He knows the price to be paid for leaning too far from the centre. They would deserve what they got.

If you detect vehemence in my tone, put it down to disappointment. Mr Major referred in his conference speech to the kindness of the British. He was right to do so. Britain is still an essentially tolerant country. Some of its inhabitants are cruel, racist, vicious in general intent, impatient when asked to help the poor, narrow-minded, xenophobic. It would be incorrect to describe British society as a whole thus, although perhaps more of it is that way today than 20 or 30 years ago. Still, if there are measures of such things, I am sure they show less fault on most scores in Britain – even in Little England – than in several of its continental neighbours.

This is partly a consequence of a policy of self-restraint by politicians of all parties. In the US, right-wing populists are sometimes hangers, floggers, deporters of immigrants, punishers of the voluntarily unemployed, sterilisers of poor single mothers. For the past half-century mainstream British political parties have kept most of these dark impulses quiescent. For example, immigration barriers are offset by civilised treatment of Britons born of immigrants. That kind of balance is what the moderate British public expects in all policies. The Tories are sending the wrong signals.

PERSPECTIVES

Every time they receive a statement from the bank enclosing details of the current level of their overdraft, Jeremy and Diana West cast their minds back six years to an episode in the history of their small business they would rather forget.

They are hardly likely to do so because the physical evidence of their adventure into the toy trade is piled high alongside the barometers, thermometers, rain gauges, charts, and other instruments that line the walls of the Met-Check warehouse in Milton Keynes.

"We haven't yet decided how to dispose of the remaining 3,000 weather kits," said Jeremy West. "We sold 100 through the Science Museum catalogue two years ago but basically we have written off the whole affair as the biggest mistake we have made in the 14 years since we started Met-Check."

The Wests started their business in 1981 and the episode occurred after eight years of steady sales of weather instruments.

They decided to name the toy product "The BBC Weather Kit" because Jeremy had known a BBC weather expert for several years and the BBC owned the rights to all the symbols that were to be an integral part of the product. The Wests negotiated a royalty agreement with BBC Enterprises, designed and produced the kit and took it to the 1990 Earls Court Toy Fair.

Sales were minimal. Although the John Lewis group bought 280, not a single large toyshop ordered any. It has taken all this time to sell 2,000 of the original 5,000 they had manufactured at a cost of £50,000.

"Our accountant tells us our losses account for just about all of our present overdraft," said West, 47. "We have analysed our mistakes – basically the product was over-engineered and too expensive for the toy market – many times over. It has made us very cautious about starting any large new venture in a field with which we are not fully conversant."

The Wests started Met-Check with £10,000 of their own capital after Diana left the instrument makers Negretti and Zambra after seven years, in order to have her first baby. The company had just moved out of retailing meteorological instruments and she realised there was a gap in the market. Diana persuaded her husband, an agricultural engineer, to give up his job selling spare parts for compressors in the construction industry.

Playing their instruments: Jeremy and Diana West of Met-Check

Ashley Ashwood

Minding Your Own Business

Toying with the weather

Clive Fewins reports on a business that learnt to stick at what it does best

Since then, the outbuildings of the West's former farmhouse in a village near Bletchley have become increasingly filled with the 100 or so lines they sell to the domestic market.

Sales of traditional meteorological instruments, home weather stations and small electronic weather measuring devices account for about half of their £220,000 turnover. At this time of year, barometers and rain gauges priced £30 to £300 are selling fast.

"Ninety per cent of our retail business is by mail order. We trade via a PO Box in Bletchley, which is the simplest way of operating as there are only the two of us plus a secretary and a part-time packer, and we do not encourage retail sales from the house," said West.

The West's policy has been to keep the business home-based, apart from the unmanned warehouse, in which they store many of the larger instruments and the electronic components for the more advanced instrumentation systems.

In this way they feel they can keep the sort of control that has shown good returns – last year's gross profit was £80,000 – in the past few years.

Apart from a visit this year to the large US-based manufacturers of wind and weather instruments for which they are the main agents in this country, and Jeremy West's trips to his industrial customers, the pair are usually at home. It is a far cry from the formative years of Met-Check, when they ran a stand, two small children in tow, at 20 shows a year.

"The shows played a vital role in building up the business and we only ceased two years ago when our caravan containing all our display materials was stolen from a barn near here and we decided to call a halt," Jeremy West said.

"The shows gave us a lot of contact with the public that we rather miss," Diana West said. "They used to pull in customers – such as the lady who bought an old-fashioned barograph for her husband, who was an engineer on the Chanel tunnel project.

"A year later he got in touch with us and the upshot was a sale of three electronic systems valued at a total of £10,000 for checking wind speeds at the French end of the tunnel. It was a big order for us."

In recent years industrial equipment has accounted for about half of turnover and has absorbed much of Jeremy West's time.

The main growth that has helped to retain the healthy turnover has been mainly legislation-driven. A good example has been sales of wind speed monitors to chemical works, sewage farms, food processing plants and other installations where smell needs to be minimised.

"Very often companies install wind speed monitors as a self-protective measure they can call on to produce evidence in the event of complaints," said West.

"Other plants use them as a means of knowing when to use odour suppressants which can be sprayed into the air according to which way the wind is blowing. We also supply systems to control these suppressants, which are very expensive, and to ensure they are only sprayed into the air when the weather conditions make it necessary."

Many of these systems are complex and require bespoke software programs. When this happens, the Wests enlist the help of a Midlands-based collaborator who takes care of the highly technical end of the business. A local computer specialist also acts as a consultant, setting up systems and writing technical manuals.

West has found the electronics side of the business increasingly absorbing. "I probably spend far too much time trying to work out systems for customers but I am basically an engineer and not a businessman and I enjoy solving problems," he said. "That is one of the main elements that makes the business fun to run."

■ *Met-Check, PO Box 284, Bletchley, Milton Keynes MK17 OQD. Tel: 01296-712354.*

The Nature of Things

'Fruitless' gene proves fruitful

The announcement of the 1995 Nobel prize for medicine earlier this month highlights an important truth of modern biomedical research. The same biological processes can occur in animals ranging from maggots to man, and many of the fundamental principles that govern human biology can be learned more easily by studying simpler species.

The prize was awarded to Edward Lewis of the California Institute of Technology, Christiane Nüsslein-Volhard of the Max Planck Institute of Developmental Biology in Tübingen, Germany, and Eric Wieschaus of Princeton University for identifying the genes that control the organisation of the body plan of the developing embryo.

All three work on *Drosophila melanogaster*, a 2mm long fruit fly from the Mediterranean that has long been popular with geneticists because it breeds quickly in the laboratory and because mutations can be induced and studied easily.

The breeding experiments needed to identify genes and catalogue their effects can be carried out much more quickly in a species such as drosophila, which has a life-cycle of weeks, than in mammals.

Drosophila has also been a favourite species for the study of how genes control behaviour, particularly the stereotyped courtship rituals which are essential to the flies' mating behaviour. The fact that these rituals, in which the male approaches the female, taps her abdomen, sings to her and licks her before attempting to copulate, are the same in all males of the species, makes it easier to study which genes control them.

A dozen or so behaviour genes have been identified so far. But, according to Ralph Greenspan of New York University, the results are extremely complex. "No one has identified any gene involved in courtship that is dedicated solely to that behaviour ... It may be that most genes underlying courtship (and most other behaviours) serve more than one function in the body."

The finding that individual genes have complex and diverse effects should not be any surprise. In all species, even in microbes, a gene merely specifies the manufacture of a protein by the machinery of the cell. The effect the protein has depends on the kind of cell in which it is manufactured, the environment of the cell and even the environment of the organism.

All behaviours depend on external stimuli. Every step in the male fruit fly's courtship ritual, from initiation to consummation, depends on visual, auditory and chemical signals from the female.

Some genes affect more than one aspect of the drosophila courtship ritual. One, known as "fruitless", affects sexual preference. Males with mutations in this gene try just as hard to initiate courtship with male flies as with females. But fruitless also affects the later stages of courtship: a male with mutations never gets as far as attempting to copulate. Greenspan says the latest results suggest that fruitless acts by switching on other genes.

The same is true of "period" which regulates the male drosophila's love song, according to Bambos Kyriacou of Leicester University, who has worked on the gene for several years with Jeffrey Hall of Brandeis University, near Boston. Hall was one of the first scientists to investigate the genetic control of courtship in drosophila.

The male fruit fly sings to the female by extending and vibrating one wing to make it click. The clicks are repeated at a frequency that increases and decreases over a cycle of about 54 seconds. Small changes to the period gene alter the length of the cycle, making the song less attractive to the female. Bigger changes completely abolish the change in frequency and reduce still further the song's power over the female.

The song cycle depends on a small section in the centre of the period gene. Splicing the corresponding part of the gene from *Drosophila simulans*, a species with a different rhythm to its song, makes the song like that of *D. simulans*.

However, the period gene's main job is to control the flies' body clock. We do not yet know how it controls the much faster clock that governs the rhythm of the song. Kyriacou speculates that it may work during development to influence the wiring of the brain circuits that control the song cycle.

But what does the work on how genes control behaviour in the fruit fly tell us about the likely genetic influences on human behaviour? One important message, according to Greenspan, is that "genetic influences on [human] behaviour will be at least as complicated as they are in fruit flies". If that is so, we are unlikely ever to be able to blame individual behavioural traits, such as violence or criminality, on specific genes.

■ *The author is professor of psychology at the University of Nottingham.*

Andrew Derrington

Return of the killer microbes

Continued from Page I

mutation is "a relatively infrequent event. It might happen once, but the chances of the staphylococcus becoming resistant to two antibiotics in the same way are somewhere between a million and a hundred million times less likely.

"The chance of random mutation generating resistance to still more antibiotics is essentially zero. So clearly bacterial genes must have mechanisms – not found in other organisms – by which they can actively, almost purposefully, mutate to protect themselves from hostile chemicals in the environment."

If the chances of staphylococcus becoming resistant to several antibiotics by random genetic mutation are vanishingly small, the chances of all bacterial species doing the same thing is so improbable as not to be worth considering. The only way this could happen would be if bacteria could somehow transmit their genes for resistance between each other.

Theoretically this should not happen, as they are non-sexual, reproducing by self division. Yet, as Japanese scientist Dr Kunitaro Ochi discovered, not only is resistance transmitted within a species, it is transmitted between species. This is unique to bacteria.

In a classic experiment, Ochi cultured strains of the bacterium *Eschcrichia coli* which were resistant to the antibiotics sulphanilamide, streptomycin, chloramphenicol and tetracycline with strains of *Shigella dysenteria* which were sensitive to the four drugs and produced strains of shigella with the same pattern of resistance as the *E. coli*.

Bacteria, it is now known, contain a form of DNA, called plasmid, which is quite separate from their chromosomes and carries both the genes for resistance and those that permit bacteria to conjugate with others. So in Ochi's experiment the *E. coli* plasmids not only encouraged fusion with the shigella, but passed into it, conferring – at a stroke – resistance to several antibiotics.

> It can only be a matter of time before there is an outbreak of untreatable infectious diseases

Microbes thus break two fundamental rules of genetics: they do not depend on random mutation of genes to adapt to a changing environment and are able to transmit genetic information between species.

Together these observations challenge the central concept of all modern biology: that there is an evolutionary hierarchy which starts with the simple single-celled microbes on the bottom rung, from which all other living things have evolved.

The problem that has become increasingly obvious in the past decade is that microbes are not simple at all. Their genetic adaptability is much superior to that of any other form of life and seems not to have evolved by chance. Further, their willingness to share their defences with other species of microbes suggests they are not solitary organisms but share a common purpose. Indeed, as British microbiologist, Bernard Dixon, argues in his book *Power Unseen: How Microbes see the World*, the genetic adaptability of micro-organisms is the single most important phenomenon in the whole of biology, for on it depends the existence of every other form of life on earth.

In the cycle of growth and decay, growth would not be possible if decay was not eliminated. According to Dixon, bacteria "make a major contribution to global cleansing, attacking the waste that arrives in an unceasing stream at sewage disposal plants, rendering it safe and innocuous".

Bacteria can adapt to incredibly hostile environments. They can be found in the heart of a bubbling volcano and buried deep in a glacier, in a jar of distilled water and in the formaldehyde used to preserve anatomical specimens.

It is only incidentally that they cause disease: when they encountered a human host, the *Mycobacterium tuberculosis*, adapted to survive in the lungs and bones, the staphylococcus adapted to live in the skin, and the gonococcus adapted to flourish in the genital tract. So their apparent malevolence and their ability to become resistant to antibiotics are both inevitable corollaries of their primary function – to sustain life on earth.

Put like this, the medical disaster predicted by Tomasz seems equally inevitable. A strain of the gut bacterium enterococcus, prevalent in intensive care units, is now resistant to all known antibiotics including the "last ditch" vancomycin. Enterococcus is itself fairly harmless – except in the elderly and debilitated – but it is only a matter of time before its vancomycin resistant gene jumps ship to the staphylococcus. People infected by this super-staphylococcus will be no more treatable than in the days before PC Alexander received his first shot of penicillin.

For the immediate future the problem of antibiotic resistance will remain confined to hospitals where it can be kept largely under control by rigorous infectious disease control. But in the growing cities of the developing world, where sanitation and housing is poor and antibiotic prescribing practices uncontrollably lax, it can only be a matter of time before there is a serious outbreak of untreatable infectious diseases.

The saga of microbes' resistance to antibiotics demonstrates how little scientists really understand of the forces of change and adaptation in the natural world. What we can now understand is why microbes have been around for 3,500 million years and will probably still be around long after we have gone.

Microbes not macrobes rule the world. What hubris to have believed they could be defeated, or that the book on infectious diseases could ever be closed.

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Lunch with the FT

The mandarin with a taste for Chinese food

Sir Terence Burns gives **Lucy Kellaway** his considered opinions

The permanent secretary to the Treasury does not lightly agree to have lunch. Seven weeks elapsed between Sir Terence Burns receiving the FT's invitation and his dispatch of a courteous reply.

First, he considered the matter. Then, he asked his press officers for a second opinion. Next, he telephoned Howard Davies, deputy governor of the Bank of England, who had previously been lunched by the FT. Finally, he looked up other articles in the series.

Taking all relevant factors into account, he came to a decision. He would be delighted to accept.

Once decided, he moved swiftly. We agreed a date barely a week hence and I booked a table at his favourite restaurant, Memories of China in Belgravia. On the stroke of 1pm that day, he walked into the restaurant, smiling and looking like a thicker-set version of prime minister John Major.

"Have you been here before?" he asked, politely, as he sat down. I said I hadn't. "I'm usually boring and order the set menu," he went on. "You get slightly too much food, so it requires a certain amount of discipline."

Sir Terry was showing himself to be a sensible man. He refused wine on the grounds that he never drinks at lunchtime, and told me how he tries not to go out to lunch on days when he has a dinner date. "It's partly because of the quantity of food, but also the time. I have to get my papers read." He often eats in the staff canteen. "You bump into people. It's nice. You get chancellors going there for baked beans and sausages: John Major, Norman Lamont, Ken Clarke, they have all used it. Junior ministers don't use it as much. I don't know why."

I suggested that they had less to prove. "This is a very cynical approach," he said. He sounded disapproving, yet maintained the same fixed smile he had worn since he came in. The waitress brought the first of a bewildering succession of dishes: chicken in peanut sauce. Handling his chopsticks with considerable skill, Sir Terry helped himself to a modest portion.

I thought it best to warn him early on that we would not be able to discuss sport – his great passion – as I knew nothing about it. "That's a bad start," he said. "I love my football. I love my golf. With my music, they are the pillars of my non-work life." To make me feel better, he reassured me that his wife also complained if there was too much sport talk at home.

Sir Terry once wanted to be a sports journalist. Indeed, he sometimes writes a celebrity football column for the Sunday Express. He told me what fun it was to sit in the press box with his minder, how skilful football managers were, and how he totted up the goals on his laptop computer as they happened.

Firmly changing the subject away from football, I asked him about the gargantuan task he faced of dragging the Treasury into the 20th century. "At times, I am overawed by how difficult it is to run a big organisation full of very clever people," he said. He described how hard it was to talk to senior people about their careers and how beastly he was finding it getting rid of the department's much-loved messengers. "It leaves people unsettled, very anxious and apprehensive."

Yet, just in case one might conclude that the process was not going well, he added: "When you get into it, it is not as bad as in prospect. I'm quite encouraged by how it's going overall."

Sir Terry stopped abruptly and stared at the Peking Duck. "Have you had this before? This is one of the great dishes of" – he searched for a phrase – "my adult life." Carefully, he arranged the duck on the thin pancake and rolled it up.

Superficially, Sir Terry is not the typical mandarin. He has a north of England accent, is not Oxbridge-educated and, despite his superior intellect, makes no effort whatever to appear erudite. Temperamentally, though, he seems perfectly suited to the job, a natural diplomat who listens carefully and weighs up the pros and cons. With the exception of football and Peking duck – which are straightforwardly good – all other matters seem to have two sides.

I asked whether being an outsider, an ex-academic with little management experience, put him at a disadvantage when it came to reforming the Treasury's management. "It is a great advantage to know there are other ways of doing things," he said. Then, after a pause: "On the other hand, there are things you don't know about in terms of the detail."

I then asked how he might settle down with a Labour government, given his history as a darling of Margaret Thatcher's monetarists. He repeated the usual line about the impartiality of civil servants before adding: "There was a period when Roy Hattersley was shadow chancellor, he seemed to have it in for me. Despite the fact I used to see him at football, he held me responsible for some of the damage."

> He described how hard it was to talk to senior people about their careers

I remarked that this view was not unique to Hattersley – indeed, various people have suggested that the Treasury should carry the can for some of the recent failures in economic policy. He frowned. "Carry the can is not an expression I'd use. It's irrelevant. When you look back on something that has gone wrong, you can't turn round and say 'this has nothing to do with me – it's all to do with ministers'. You are in a team. But it is also nonsense to say that all problems are down to officials."

I asked how he felt about his nickname, Teflon Terry. "I don't even really know what it means – that I spend my life shuffling responsibility on to others? – which I don't do." For the first and only time during our lunch, he seemed a bit annoyed. "A lot of this very two-dimensional picture comes from journalists who have never had the experience of working in teams." But he did not stay cross for long. "I don't resent it. On the whole, I've had a good press. I've been very lucky. The most painful thing is reading criticism that is true."

The main course arrived: more fish, more beef, more chicken and some fried rice. "I have a large element of routine to my life," he said, following me to a fair helping of fried rice. "I do many of the same things year in, year out. I find it very comforting.

"I go to the office. Work. Go home. Have supper. Do a lot more work. Then I go to bed. That's Monday to Friday. On Sunday, I do a bit of work. Try to get in a few holes of golf, watch some football. Then we have our family supper and then I do a bit of work after it."

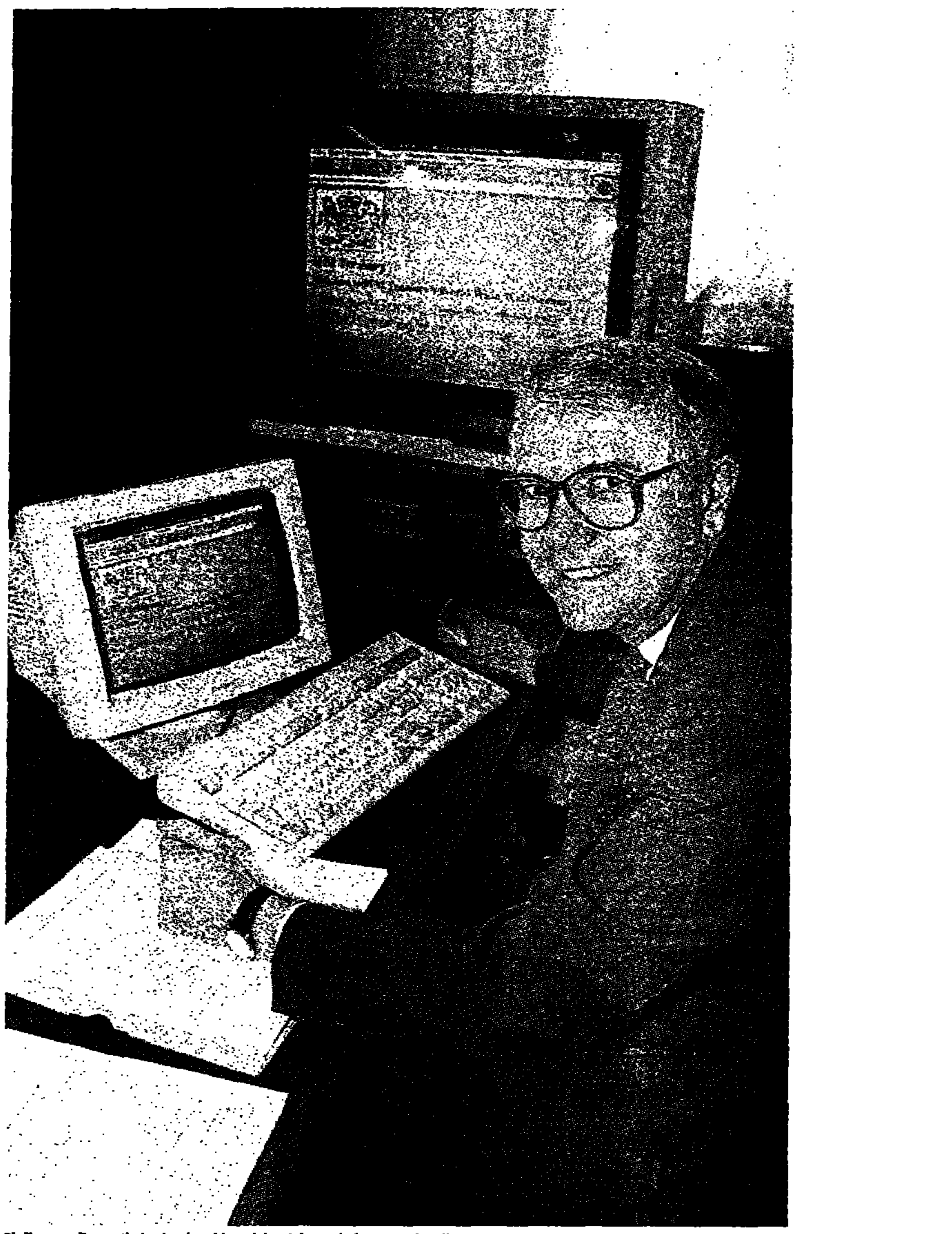
My face probably betrayed that I did not think it sounded much of a life, and he said quickly: "But I have a very good time. Playing hard and working hard. I never do anything in between, like shopping and gardening."

Did he cook? "I don't wish to go into that. I can do beans on toast. I'm not like Howard Davies. At some stage in his life, he decided he was going to cook, so he does it properly." This was said with no side: Davies, a great friend, is part of a little gang of northern grammar school boys made (very) good.

"You are not going to like this one bit," he added, "but sport has always been an important part of the cement between us. Howard Davies, John Birt [BBC director-general] – a lot of us end up together on cup final days."

The meal was drawing to an end. Unlike me, he sensibly refused the strawberry ice cream as we started to discuss previous guests in the FT lunch series. I remarked how people often turned out to be not what one expected. "What have I said that has surprised you?" he asked.

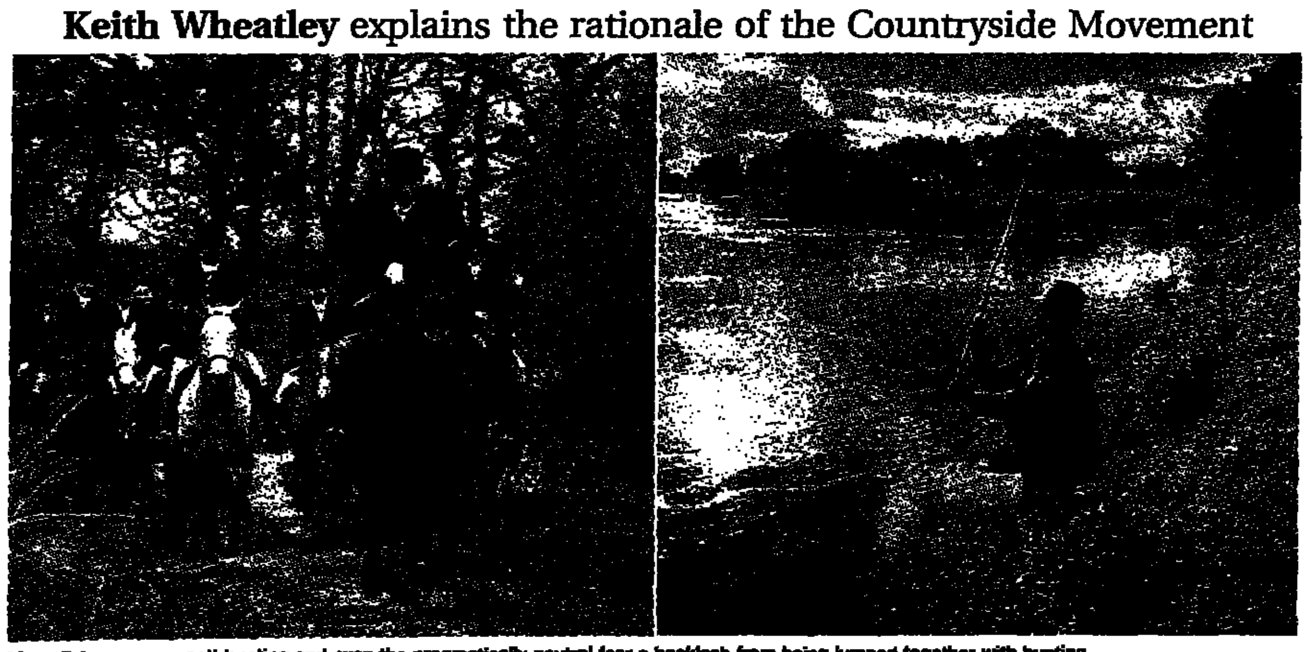
I was slightly at a loss. I wanted to say that the only thing surprising about his pleasant, normal line of conversation was that it should come from the permanent secretary of the Treasury. But, as that might have sounded rude, I said that the most surprising thing was that he had been chatting away for two hours as if he did not have a care in the world.



Sir Terence Burns: 'I play hard and I work hard. I can do beans on toast' Tony Andrews

Big guns take aim

Keith Wheatley explains the rationale of the Countryside Movement



Many fishermen are anti-hunting and even the pragmatically neutral fear a backlash from being lumped together with hunting

Over the coming months it will be hard to miss the debut of the Countryside Movement. An advertising and public relations campaign will launch this umbrella group which aims to protect the increasingly fragile rights of the British to hunt, shoot, fish and farm against a rising tide of encroachment.

Insiders expect to see Sir David Steel, the former Liberal leader, named as the first head of the organisation. One man the public are unlikely to see is a discreet, passionate American corporate lawyer named Eric Bettelheim. Yet through the Countryside Business Group he founded earlier this year it is Bettelheim who expects to raise the £4m or £5m a year necessary to run an effective campaign.

Independent estimates calculate the annual income in the UK of pressure groups such as the League Against Cruel Sports and the International Fund for Animal Welfare to be more than £50m.

The IFAW alone spent more than £2m in six weeks this year in a short campaign against country sports. "It seems impossible to fight against this amount of money and resources unless you see the countryside as a single business," says Bettelheim, an Anglophile barrister originally from the US mid-west.

"But once you put the single sectors together you have an industry which outstrips most other things in this country and is worth billions a year."

The CBG was formed after a dinner a year ago hosted by Alain Drach, head of London gunsmiths Holland & Holland. The consensus among the guests was that only a highly-professional campaign could roll back the gains of the lobby that, in Eric Bettelheim's words, "sees the countryside as a giant theme park".

However, such professionalism has to be paid for. The notion from Bettelheim was that businesses with a vital interest in the continuance of traditional country life, whether gun-makers or builders of four-wheel-drive vehicles, would be prepared to pay a levy on turnover if it helped safeguard their future.

"I said that if I couldn't raise £150,000 in six months I would give all the money back," he says. "It took five weeks and that at a time when I was deeply involved with the Barings crash. I knew I had struck a vein of intense interest."

If the CBG – chairman, Hugh van Cutsem – and its public front, the Countryside Movement, take off strongly it will be due largely to timing. Hunting commences again this weekend against the knowledge that with a change of government likely, if not imminent, this could be a last season for the chase. Labour is committed to a free vote on banning hunting and has said that if the House voted against the sport, it would push through banning legislation.

In response, there are other signs of the wagons gathering into a protective circle. Earlier this month angling's three national bodies threw their support behind the British Field Sports Society.

It was a controversial move among the fishermen. Many are anti-hunting and even the pragmatically neutral fear a backlash from being lumped together with a sport which might be outlawed. Yet the smarter leaders of the angling fraternity see clear signs that fishes and foxes are not as far apart as some might think.

For instance, there was an unprecedented attack two weeks ago on three octogenarian salmon fishermen by a group of animal rights activists. It happened in the Lake District and Cumbrian police suspect the thugs were hunt-saboteurs who failed to find the North Lonsdale hounds.

Eric Bettelheim's main interests are shooting (he co-manages a large Wiltshire shoot) and fishing, although he occasionally hunts with the Athelstone. With all the fervour of a convert, he loves the British countryside and fears its traditions may be allowed to slip away.

"The traditional field sports groups have continued to believe, for much too long, that ingrained pluralism in your society will protect minority rights," Bettelheim says from his office at City lawyers Rogers and Wells. "That is simply not true. It reminds me so much of the abortion issue in the States. Views have polarised so much that compromise is not possible. Animal rights is quite different from animal welfare, although they can appear similar at first glance."

Bettelheim believes that animal rights is a radical philosophy appealing to those on the left, marooned after the collapse of the Eastern bloc five years or so ago. Quite how the ladies in floral frocks throwing themselves under veal trucks at the ports of Shoreham and Brightlingsea fit into his analysis is unclear.

The Countryside Business Group is asking companies with a significant interest in the countryside to contribute 1.5 per cent of turnover, plus an entry fee of between £1,000 and £10,0000, to protect their marketplace. Smaller businesses and sole traders will make a single payment of £500. Membership will be tax-deductible and confidential.

Bettelheim is quite clear that a distinction must be preserved between the CBG and the campaigning arm of the movement. The first significant act of the CBG has been to commission am independent economic study from the London School of Economics on the aggregate importance of the countryside.

Meanwhile the Countryside Movement will be displaying posters and advertisements, in a huge "hearts and minds" campaign. Whoever wins, the countryside is certain to become a battlefield over the next couple of years.

FASHION

Find a path between ugly and romantic

Avril Groom *on the two faces of fashion presented on the catwalks – and where it all leaves 'real' woman*

As the millennium nears, fashion seems pivoted, appropriately looking both ways. Two main visions emerge from the spring 1996 designer shows held across Europe over the past three weeks.

One is a modernist, sometimes brutalist, style of skinny plain shapes, synthetic fabrics and aggressive attitudes – clothes for Generation X, which has already been dubbed the "ugly look". The other is a sweet, lush romanticism, based on an idyllic past that probably never existed.

The majority, who prefer something between the two, will find simple shapes mean few essential buys for next spring. There is undoubtedly a new emphasis on the hips, on colour and print, on translucent, shimmery or lacey synthetic fabric, on zips and on narrow-backed, softly flared shapes.

If you are slim, hipsters may appeal; if not, a soft A-line skirt to the knee is more flattering; a long, light, stretchy skirt newer. Less toned figures should copy the old masters – try St Laurent's easy safari jacket over a skinny translucent skirt.

Dresses can flatter if belted or seamed round the hips, such as Montana's, or with Valentino's contrast of fabrics across the hipline.

Knee-length coats are big news, easier in a soft fluted shape. Looser shapes may even wrap and tie round hip or waist.

The forward-looking may opt for a sweetly-gathered full skirt or the hooded, printed, diaphanous beach kaftan – glamorous resort wear from Dolce e Gabbana, Rifat Ozbek and Pearce Fionda (who won the Newcomers' prize at this year's British Design Awards).

The social climate behind fashion extremes seems, at first sight, bleak. Modernist clothes, shown on models who look as if they have spent too long growing in the dark, reflect isolated youth withdrawn into anonymity, hence the blank shapes, total lack of logos and sunglasses permanently clamped to noses. Even gender is blurred with near-identical clothes shown on men and women.

By contrast, the romantic look, which came mostly from more mature designers, works best when it avoids head-in-the-sand nostalgia, although its individualism is too uncool for the young.

Neither seems an attractive option for a real-life, grown up wardrobe. But remember that catwalk shows only test the water and see how far designers can push the limits of what is acceptable. With depressed trading conditions, any designer serious enough to brave the global fashion stage knows that selling is as important as creating.

So, Helmut Lang's soft tailoring stayed in the showroom while his Paris show was a strong statement about mixing colours and lacey textures in transparent nylon layers – one of spring's main themes.

In spite of bright opaque tights to balance the bare necklines, much of it looked like lingerie and that is the image which his hip young fans will reproduce next summer. Meanwhile his real customers will find a narrower, softer cut and lacey, not plain, nylon layers the main commercial changes.

Similarly, Ann Demeulemeester's consciously hard-edged show of black leather, low-draped hipsters and cropped knits seemed to have little connection to her showroom collection of sinuous, hip-length cardigans and narrow-backed small jackets that would work in the office.

Both these designers have remained true to their creative principles though their style has quietly become more accessible and is now in mainstream shops. Likewise Martine Sitbon, who has always loved the 1970s and whose thrift-shop colours and concave, nerdish shapes (including, yes, zip-up anoraks) catch the nihilistic mood.

If, however, youthful uniformity has little appeal and a slinky, romantic bias-cut gown interseamed with Art Nouveau organza motifs is your fancy (and they sell fast in the shops that dare to stock them), then John Galliano is your man. Frothy ballet tutus with conical-bosomed bustiers may have made headlines, but the bias-cutting, plus puff-sleeved, white lace and broderie anglaise dresses or self-embroidered black suits are what real women will wear.

Galliano, who is once again British Designer of the Year in recognition of his Givenchy coup, is having nothing to do with the 1970s revival. After three big collections he sees no reason to change.

Or try Claude Montana, whose high-glamour sculpting is softened in white, pastel or rain-forest shades. His shapes still overpower but his evening suits, their bias skirts trailing away to nothing, out-do even Galliano for lean hauteur.

Perhaps you prefer the sweetly printed, full-skirted dress – a very English look and Vivienne Westwood does it best. Other British designers, notably Margaret Howell and Roland Klein, also make it a fresh look.

With 18th century panelled backs on plain silk dresses and a huge modernist print on a ballgown, Westwood skilfully combines history with modernity. Likewise Christian Lacroix, master of historic fashion, who throws in contemporary plain black satin bisected with diamanté zips among the damask laced corsets and chiffon prints.

If your personal nostalgia is for faded flea-market finds, then try Martin Margiela – the original deconstructionist now has a gentle touch and is using the latest in hi-tech (photo-prints of old knits and fabric patterns) for a new twist on soft shapes.

There is a move, especially in Paris, to declare black as stale as yesterday's baguette. If you love colour, look at Comme des Garçons' brilliant swirls and patchwork of knit and jersey. The shapes are simple and fresh.

Issey Miyake's pleats and tailoring will sell in fresh primary mixes and perhaps in hologrammed silver, though these fabrics will also appear, at a fraction of the price, from clever young British companies.

Even Yohji Yamamoto appeals to colourists with softly-cut separates in spring vegetable shaded prints, though there are also darkly neutral, slender jackets and the new long, stretchy, translucent skirt for working women.

London's £220m designer market at present has its own two-way split between the predictably commercial and the highly creative for whom even adventurous dressers need a strong stomach. Where other cities have perfume and manufacturers to back shows, British designers have won industrial sponsorship.

Eleven shows benefited from industries as diverse as cars, drinks and chainstores, while Vidal Sassoon has a long-term sponsorship commitment.

Some designers also tried the media-friendly ploy of personality models – the singer Björk in black at Hussein Chalayan, Kylie Minogue, another singer, in red ruffles for new boy Antonio Berardi.

Not all the collections merited catwalk shows, yet the associated static exhibition was a happy hunting ground for buyers in search of well-made, well-thought-out small collections. More of the UK's enthusiastic but inexperienced talent should be persuaded to join it next time.

However, London has its own increasingly confident young originals, whose forte is tailoring. Pearce Fionda's shimmery fabrics, bias-cutting and rounded details give sweet ingenuity to sophisticated clothes; Owen Gaster's origami wit is applied equally to both a nylon parka and a simple skirt; and Hussein Chalayan's intellectual fabric use puts him in the vanguard of modernism.

And Alexander McQueen, following several distinctly self-indulgent shows – produces sharply curved jackets, taffeta fishtail skirts and glistening hi-tech dresses not impossible for real bodies.

Finally, both fashion's confusion and clear vision are summed up by the enigmatic Karl Lagerfeld. Having foreseen a move to looser shapes six months ago, he fails to make it work in either his own or the Chloé collection.

Then, for Chanel, he does it all – the bright, light, looser jacket worn with low-slung chinos or charcoal denim, the longline hipster skirt, the sweet gathered-waist dress, even the beaded shantung kaftan. What is more, it seems feasible and pretty. The look is not so ugly after all.

Pictures by Niall McInerney


Chanel's sweet girl in shimmering bluebell velvet


Margiela's ghost – photo-printed flea-market separates


The new deluxe kaftan, in dévoré silk from Pearce Fionda


Yamamoto's apricot printed jacket and marbled gold satin skirt


Galliano's grace – fragile blue appliquéd silk from the Designer of the Year


London attitude – cut-out lace and pin-striped hips from Alexander McQueen

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FASHION

Take a luxurious camel ride into 1996

Karen McCartney on the return of a classic, which designers have injected with modern cut, fit and styling

Tank top and cardigan twinset, 80 per cent angora and 20 per cent polyamide, £323, and peach satin skirt, £178, all by MaxMara, from the MaxMara shops at 153 New Bond Street, London W1 and 32 Sloane Street, London SW1 (tel: 0171-287 3434). Gold bracelet, £110 by Cobra & Bellamy from Dickins & Jones, Regent Street, London, W1 (tel: 0171-734 7070)

Wool zip-fronted jacket, £450, by Ter et Bantine from Harvey Nichols, Knightsbridge, SW1 (tel: 0171-235 5000). Wool trilby, £95, by Stephen Jones from Liberty, Regent Street, London W1 (tel: 0171-734 1234).

Skirt suit , 90 per cent wool, 10 per cent nylon, £610, by Calvin Klein available from Harvey Nichols, Knightsbridge, London, SW1 (tel: 0171-235 5000). Tortoiseshell glasses, £23.50, by Fabris Lane Etalia, available from Boots and House of Fraser stores nationwide. Tel: 0181-974 1642 for further stockists. Triple band gold ring, £70, by Tateossian from Harrods, Brompton Road, London SW1 (tel: 0171-730 1234 ext. 3394). Chocolate suede frame bag, £59, by Austin Reed from 103-113 Regent Street, London W1 and selected branches (tel: 0800-585 479). Chocolate suede boots, £395, by Gina from 189 Sloane Street, SW1 (tel: 0171-235 2932). Ultra Five sheer tights in nude, £3.50, by Aristoc from department stores

The last word in style this autumn (rather than the last straw) is something camel. Not beige, not taupe, nor even fawn will do. It has to be that deep, dense caramel colour that speaks volumes in terms of luxury and quality.

Designers on both sides of the Atlantic have paid tribute to its classic appeal while injecting a new sense of modernity into the cut, fit and styling.

As a rule, the look is spare and unadorned. Look out for immaculately tailored coats from Helmut Lang and Salvatore Ferragamo, softly-belted wrap coats from Dolce e Gabanna, Hermès and Ralph Lauren. And chic little dress and jacket ensembles from Calvin Klein and Alberta Ferretti.

Traditionally, camel is not thought easy to wear. It has always looked wonderful on darkly dramatic continentals while cool Grace Kelly blondes have given it an air of icy chic.

However, Mary Spillane, boss of Color Me Beautiful Image Consultants, believes that redheads, blondes and even women with plain mousey hair can and should wear camel. "The right shade of camel can add warmth and give a natural glow to slightly lifeless skin."

Eve Cameron, a health and beauty expert and editor of Zest magazine, says women need to revise their make-up and reassess their hairstyle when fashion demands such a sea-change as seen in recent months.

"Women run the risk of looking out-dated if they do not make changes. A camel outfit demands a polished, groomed make-up. A few key purchases should make all the difference – most important is a new lipstick or eye-defining pencil.

"Try something like Kiehl's Carmello (£15.50), a yellow/beige matte lipstick, for a high-fashion look, or Bobbi Brown's Mocha Stain lipstick (£11) which is a sheer suit-all moisturising lipstick available from Harrods and Dickins & Jones."

International make-up artist, Ian Jeffries, has some words of caution: "Avoid pink and red lipsticks. Pink is from the wrong colour family to complement camel and red is too glaring and can look cheap. Camel is essentially a sophisticated colour and, particularly for blondes, needs a monochromatic, tonal make-up where no one feature is prominent and the general effect is stylishly understated.

"Redheads often have yellow as part of their skin tone and naturally suit camel. They benefit from a stronger, browny toned lipstick. However, mousey hair needs a more dramatic application of make-up with a degree of contrast – smokey eyes and a pale neutral mouth is perfect for the look."

Camel's great asset is its natural compatibility with other colours. Team it with white leather for a fresh, contemporary feel or choose an accent of chocolate brown knitwear and accessories. Cal boots, in car-paint finish, from Gucci are much sought after this season. If your preference is for a print then a flash of faux fur at collar and cuffs is the answer.

Sue Whiteley, head of Buying Womenswear & Accessories at Harvey Nichols, was quick to buy camel from designers as diverse as Alberta Ferretti, Calvin Klein, Ter et Bantine and Michael Kors.

"It is already selling well and many of our customers are using it to inject some colour into a predominantly black wardrobe. Camel is new and has only been shown by the most directional designers and my feeling is that it will build in momentum and will have an even greater presence in autumn/winter 1996," she says.

So the fashion message is – buy camel now and invest in a colour with a long shelf life.

Photographs .... *Jane Hilton*
Make-up and hair .... *Julie Thomas using Paul Mitchell Luxury Hair Products*
Styling .... *Karen McCartney assisted by Luci McQuitty*
Set ..... *The 224 Restaurant on the 3rd Floor of Dickins & Jones, Regent Street, London W1*

HOW TO SPEND IT

Where glow matters more than sparkle

Lucia van der Post adores antique Indian diamonds in modern settings

When gemologists wax lyrical about diamonds, they are prone to eulogise about their brilliance, their whiteness, and their blinding clarity. So it comes as something of a novelty to find that Indian diamonds are sought after for other qualities – for their antiquity to begin with, and then for their softer, mistier charms.

Diamonds were first found in the alluvial mines in the Kingdom of Golconda near Hyderabad nearly 3,000 years ago. These have always been known as the Golconda diamonds and for many years – until more were discovered in Brazil in the early 18th century and later in South Africa in the 19th century – Golconda was the world's only known source of diamonds. From its seams came the Koh-i-Noor, now part of the British crown jewels, the Great Mogul and the Hope.

In the 18th century the Indian mines began to dry up and by the 19th century they were closed and Golconda diamonds became even more *sought-after as they became* the subject of legends. The mystique still lingers on. Christie's recently sold a ring of Golconda diamonds for £280,000 when the reserve price had been just £100,000.

Hennell, an old-established British jeweller recently bought by an Indian businessman, has just launched a collection of exceptionally attractive jewellery, featuring Golconda diamonds which its Indian owner has been collecting for years. Each of the gems has been designed around a particular stone so that although there is a strong likeness between them all, no individual piece is like any other.

From the Golconda collection: Begum's Fan jabot pin with pavé-set diamonds set in platinum and 18 carat gold, £24,500

Though the stones are, of course, antique, having come from other pieces of jewellery, the settings are in modern gold or platinum. There are 50 pieces in all and though some of the prices are up in the high thousands some rings sell for as little as £1,750.

Once seen, the difference between the Indian Golconda and its western counterpart is easily spotted: in the west, diamonds have traditionally been highly-faceted and sharply cut, while the Indians have preferred fewer facets and much less sparkle, which gives the stone a much gentler glow.

Fountain brooch with a selection of brilliant and princess-cut diamonds set in 18 carat gold, £23,000

Some of this cultural difference can be attributed to the Indian *attitude to jewellery* – though opulent decorative pieces always had a special place in the Indian way of life, the stones were nevertheless prized mostly for their mystical, spiritual qualities and for *their astrological associations.* Owners came to care less for the glitter or brilliance of the diamond and much more for its subtle luminous glow.

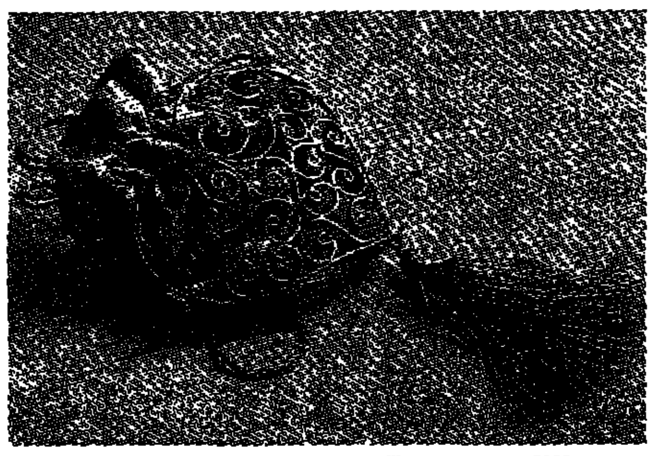
When jewellery's prime role was to declare status, men wore the more opulent pieces. Here, an Indian miniature painting shows the legend of Krishna and Radha and the moonlit diamond, Kangra

The jewellery itself is charming; some of the cheapest *pieces are rings. Brooches and* ear-rings range between £12,000 and £15,000; and for those with even more serious sums to spend, some necklaces show off the idiosyncrasy of these diamonds to great effect.

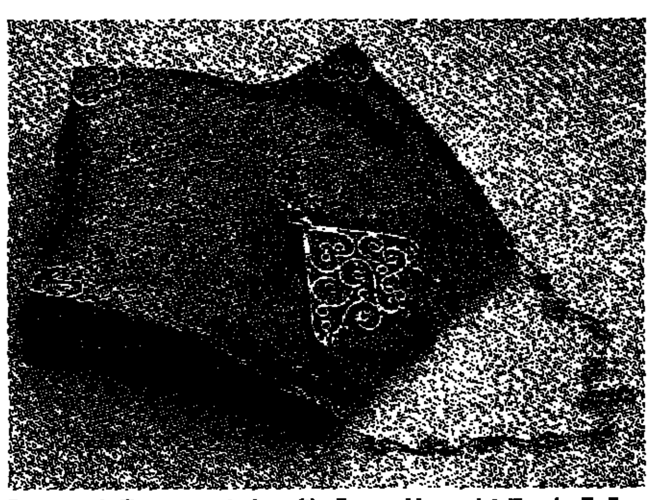
The Golconda collection, together with an exhibition of antique Mogul jewellery, is now on show at Hennell, 12 New Bond Street, London W1Y 0HE.

A receptacle for fresh young talent

Now you can buy designer handbags and hats from two ends of the shopping spectrum



Emily Jo Gibbs' delicate silver filigree and silk organza bag, £200



Pentagonal silk organza design with silver and brass detailing, by Emily Jo Gibbs, £195

A Lulu Guinness design exclusively for Debenhams stores, £25 each

Serious observers of the fashion scene will need no reminding that a bag has long since ceased to be merely a practical receptacle for those essentials that the female of the species needs to hand. Keys, parking meter *money, a Mac lipliner, last* week's Sainsbury's bill ... you know the sort of thing.

Bags have developed nuances, messages, meanings ... all those things that makes purchasing them so stressful. Now that the semiologists are telling us that merely by buying a bag we are signifying our membership of a particular club, some of us more timid souls have become very anxious to know which club it is we are signing up for.

But there is a way out – buy a bag from a source so new, so fresh that it foxes everybody. Emily Jo Gibbs is a young designer whose bags are of the small, intricate, jewel-like variety.

We are not talking bags for portfolios and A4 files here – we are talking delectable, desirable little bits of filigree and satin, velvet, inlaid mother-of-pearl and silver and freshwater pearl handles, silk dupion, feathers and hearts.

These are handbags that give verve and originality to the plainest of plain cocktail dresses. They are almost like jewels but they are both decorative and functional.

So far, Emily Jo Gibbs' bags have been available in only a few stores – Harvey Nichols has just dismantled a whole window given over to her designs, Browns of South Molton Street, Jenners of Edinburgh and Caroline Charles of Beauchamp Place and Bond Street have also been selling her work.

Harvey Nichols has almost sold out but a new collection is expected for the Christmas season. Harvey Nichols thinks Emily Jo is going to be very big.

As the store put it: "She is going to do for handbags what Philip Treacy has done for hats. Everybody has been bored to death by black nylon and here Emily Jo comes along with a completely new fresh look.

"Her spring collection is beautiful – brightly-coloured pink, yellow, green woven satin bags that are simply irresistible."

She has just finished showing at London Fashion Week and several foreign buyers, including several from Japan, are busy working out their orders – it is unlikely to be long before those who have become her fans will find themselves members of a growing club.

Conker-shaped evening bag made of silk with satin lining and with a separate inner smaller conker bag, by Emily Jo Gibbs, £320

Her bags do not come cheap – most are priced around the £200 mark – but she uses fine silks and satins and all are *made by hand by Emily and* her outworkers. She is just one of a number of young designers who are providing a range of accessories that fall somewhere between fashion and craft.

Lulu Guinness is, of course, the other young designer who has had a lot of fun with handbags. Hers is already a well-established name; her bags, some weird, some funky, some beautiful, are already to be seen on many a famous arm.

Indeed, she is one of a group of designers that the enterprising and adventurous Debenhams has asked to produce a less expensive, but equally fashion-conscious, line for its customers.

So if Emily Jo Gibbs' prices are out of your range, head for Debenhams where five different styles from Lulu Guinness are on sale, each at the stunning price of £25.

One version is photographed here (bottom left) and there is a bucket-shaped bag covered in jet black beads, as well as a striped black velvet and satin version with a metal clasp. Some come in glowing fire-engine red.

While on the subject of hat designer Philip Treacy, it is worth mentioning that he, too, is one of the designers producing a less expensive line exclusively for Debenhams.

There is a marvellous collection in the stores, all on sale at £85 each – in red or black or combinations of red and black velvet and astrakhan. They are wonderfully Dr Zhivago-ish. *Just the thing should winter* ever come.

L.v.d.P.

How to suit yourself

It is a truth universally observed that the male of the species is infinitely more at sea when it comes to sartorial decisions than the female. Should he wear navy or might dark grey be better? Is brown really a no-no? Should he buy double-breasted or single? Which of the many jackets on the rail is the one for him? Why does his suit never seem to hang the way it should? Every day of the week you see men in clothing stores looking hapless in the way that only men in a clothes shop can.

If you have ever felt that way yourself, help is at hand. The Financial Times has joined with menswear experts from Alfred Dunhill, the luxury goods group, and is to hold an evening workshop in the Dunhill store in Duke Street, St James's, London.

Though there will, of course, be an opportunity to buy Dunhill clothing at advantageous prices, that is not the main purpose of the evening. What its designers and experts really want to do is to illuminate some of the difficulties that buying ready-to-wear clothing involves.

What is it that makes one suit work and another never *look quite right? Why is it* that a jacket that is perfect for one man somehow looks faintly ridiculous on another? Which colours work and which don't? Can you wear a striped shirt and a spotted tie? Such matters will be discussed and demonstrated on readers that evening.

There will be other entertainments, including live music, delicious eats and drinks, a chance to talk to the team behind the menswear range, and at the end of the evening one lucky reader will have won a Dunhill suit.

The event will take place between 6.30pm and 8.30pm on November 9. Tickets cost £7.50 each (a maximum of two to any one person). Women will be *welcome* – bring along sons, husbands, fathers, friends. The proceeds will go to Cancer Relief MacMillan Fund, the Financial Times charity of the year. The tickets will go to the first 120 readers to apply to Patricia Clark, FT/Dunhill Evening, Caroline Neville Associates, 37 Greenwich Market, London SE10 9HZ. Cheques should be made payable to Cancer Relief MacMillan Fund. Make sure names and addresses are clear. Male readers should include collar size, chest size, waist size, and inside leg measurement – this is to ensure a suitable range of sizes for the demon*strations.*

L.v.d.P.

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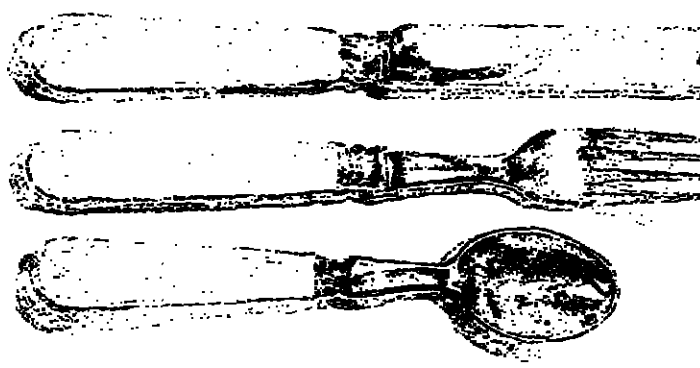

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☐ 1. Stainless steel and resin handled pieces by Jean Dubost, £5.75 each for knife and fork, £5.50 for spoon. Also in green. Dishwasher-safe, from The Conran Shop, 81 Fulham road, London SW3 (0171-589 7401).
☐ 2. White frosted Italian cutlery by Albert Inox. Dishwasher-proof, it comes in six other colours. Spoon and fork, £4.50 each, £5.50 for knife. From Heal's, 196 Tottenham Court Road, London W1 (0171-636 1666).
☐ 3. A collection of ceramic fruit or butter knives and forks, £4.50 each, from Liberty, 214-220 Regent Street, London W1 (0171-734 1234). Not dishwasher-proof.
☐ 4. Acrylic handles, silver plate decorative detail and stainless steel, by Laure Japy. Dishwasher-proof, £23.99 (knife) and £26.99 (fork and spoon). From Selfridges, Oxford Street, London W1 (0171-629 1234).
☐ 5. Resin handles, six colours, at Maryse Boxer chez Joseph Maison, 26 Sloane St, London SW1 (0171-245 9493). Six pieces, £22.
☐ 6. Ivory-coloured resin handles and stainless steel. Knife, fork and spoon, £4.50 each. From Jerry's Home Store, 163-165, Fulham Road, London SW3 (0171-581 0909).

■ *Drawings by Margie Keedy*

Modern design at the cutting edge

Lucia van der Post on the best ways of assembling a perfectly acceptable set of cutlery

Implements for moving food about the plate, for cutting it up and transferring it to the mouth are nothing new. Early man fashioned cutlery, of a sort, from stones and wood, and even chimpanzees use stones to crack nuts and leaves to clean their teeth and noses.

Even so, church leaders in 11th century Venice were outraged when a Turkish princess who married a Venetian doge brought golden table forks with her as her dowry. "God in his wisdom has provided man with natural forks," they said. "His fingers."

Peri Wolfman and Charles Gold's splendid book on the subject of forks, knives & spoons tells me that people in the middle ages took their own eating tools to other people's tables (terrific idea for saving on the washing-up). Still later, in the 17th century, Cardinal Richelieu of France decreed it illegal for cutlers to supply inn-keepers with pointed knives. It seems that when things got out of hand, gentlemen were inclined to stab each other while dining.

Things in the cutlery department have become more dull since then. Victorian respectability put paid to colourful habits and no proper Victorian home would be without an impressive array.

Anyone whose ancestors thoughtlessly failed to amass a collection substantial enough to be divided among the heirs, will today find that putting together a tableful of the right implements with which to hold a convivial dinner can cost a small ransom if proper silver or even silver-plate is the aim.

One happy solution is to be found in smaller markets and antique fairs. Decide from the start that matched pieces are of no consequence – simply buy ones that please your eye: a handful of knives here, a group of spoons there and before long, without too big an outlay, you will have an attractive collection.

Victorian flatware, serving spoons, ice-cream spoons and jam spoons, knives with handles of silver, bone or resin, forks of silver – all these can be used together, each piece and design enhancing the other.

For years, the only alternative to antique or old cutlery was rather austere and frankly dull stainless steel cutlery emanating from some of our larger manufacturers. Then came the wooden-handled bistro cutlery – fine perhaps for some tables but a little informal or rustic to go alongside fine china and glass.

Nowadays, happily, there are other alternatives, some of which are sketched here – these are mostly based on resins and plastics, which have enabled designers to mimic such beautiful but morally prohibitive materials as ivory and to create a newer, fresher aesthetic.

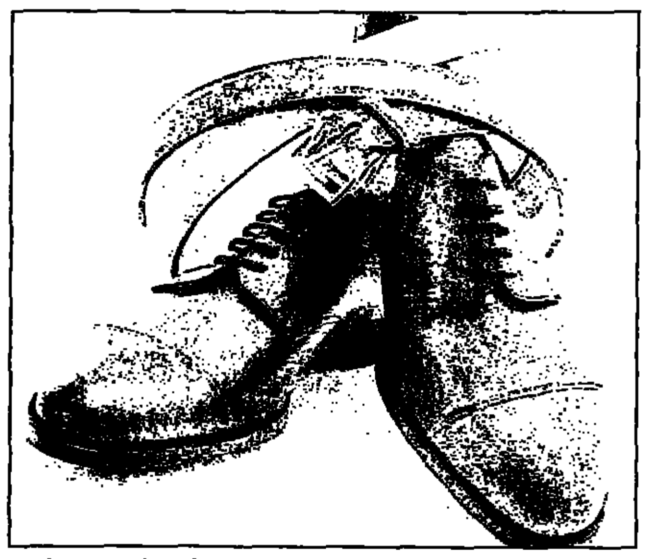
The mood ranges from the rather austere, stream-lined but beautiful design with white frosted handles by Albert Inox to the more baroque designs by Laura Japy from Selfridges.

Most are dishwasher-proof, all are appealing enough to grace the most splendid dinner table and though possibly some are not as cheap as you might wish, a few (notably Maryse Boxer's pieces *chez* Joseph Maison) are very reasonable.

As a comparative benchmark, the average price for a standard seven-place setting in solid silver would cost £425, in silver-plate £164.

■ *Forks Knives & Spoons, Thames and Hudson, £12.95.*

Lobbed into the ring



Ready-to-wear from the new Lobb shop at 90 Jermyn Street, London W1

John Lobb is possibly the most famous name in the world of shoes, the most distinguished survivor of London's 38,000 shoemakers, which it boasted in 1851. In the days of the British empire, civil servants trying to keep up standards in difficult conditions around the world would write home to have pairs of shoes hand-made from their own last.

Today a pair of hand-made Lobb shoes is still thought by many to be the ultimate in luxury – they may cost about £1,300 and you may have to wait six months for delivery but once you have experienced the comfort and the quality, you are spoilt for life. Or so received wisdom would have us believe.

From today, however, a pair of John Lobb shoes can bought from the rack at the new shop at 90 Jermyn Street.

Ready-to-wear Lobb shoes first appeared in Paris, where there had long been a bespoke shop in the Rue de Faubourg St Honoré. Bought by Hermès in 1976, a ready-to-wear line was soon established and soon after that, Hermès' London shops began to carry some of the lines. Now, however, the full ready-to-wear Lobb collection is available in a shop devoted to it.

Some will find the very notion of Lobb ready-to-wear sacrilege but for others it will seem an obvious move into a more modern world. Prices will of course be substantially lower than bespoke – ranging from £225 to £425 – and no longer will there be a long wait to be shod.

The ready-to-wear versions are all made in Northampton (the bespoke are still made in St James's) but they will have many of the features of the bespoke versions. Each pair, for instance, is made from a complete skin which is then cut out by hand. Only calfskin is used for the lining and all shoe openings are edged with a fine kid border. All soles are invisibly stitched.

About 35 different models are on offer – all with the rather distinctive long, thin John Lobb look. There are city brogues and soft loafers, ankle boots and riding boots, sporty boots and moccasins as well as the distinctive double-buckle.

In addition there is a small selection of accessories, as well as classic belts and small leather goods.

■ *A selection from the ready-to-wear range can be brought to your door (London postal district only). Tel: 0171-930 8089.*

L.v.d.P.

FOOD AND DRINK

Wine

Now is the time to sell fine wine

Jancis Robinson suggests raising some cash to spend on bordeaux 1995

A Weekend FT reader in Dorset sent me a mouth-watering list of his collection of 1985 clarets early last month, explaining that "in 1986, I *abandoned all the rules of* sound business and investment which had hitherto stood me in good stead".

Following the advice of "a reputable firm of wine merchants with royal appointment", he invested just over £6,000 in a total of 20 cases of top quality red bordeaux 1985s and has since been paying about £100 a year to keep this liquid asset safe and sound.

Until then he and his sensitive nose had enjoyed wines more modest than this, but he was consoled by the wine trade's *common palliative to* those spending more than perhaps they should on fine wine that "at least if the bottom falls out of the market, you can have great fun drinking your investment".

Anticipatory gurgles of pleasure turned to hollow laughter about four years ago when the unfortunate investor developed an allergy. It has not only cost him the sense of smell so vital for wine appreciation, but means that exposure to alcohol in any form now results in uncontrollable sneezing. So far *this sounds like a tale from the* Arabian Nights.

1985 CLARET PORTFOLIO

Cases	Chateau	Sterling prices, quoted per case				
		Bib	BB&R	C&B	Farr	Reid
2	Beychevelle	260	190	210	225	200
2	Cheval Blanc	685	690	625	697	725
2	Cos d'Estournel	350	330	315	348	330
2	Ducru-Beaucaillou	240	260	240	242	250
2	Haut-Brion	470	440	435	467	450
1	Lafite	650	450	560	552	550
2	Mouton-Rothschild	630	630	700	697	700
2	Pape-Clement	155	180	180	180	180
5	Latour	485	540	590	467	575
20	TOTAL	8,435	8,410	8,470	8,505	9,095

Bib: Bibendum, London NW1 0171-916 7703
BB&R: Berry Bros & Rudd, London SW1 0171-396 9600
C&B: Corney & Barrow, London EC1 0171-251 4051
Farr Vintners, London SW1 0171-828 1960
Reid Wines, Hallatrow, Bristol 01761-452645

But now we come to the bit of more direct relevance to anyone with a sizeable collection of fine wine who has been wondering when exactly they are ever going to get round to drinking it all.

My correspondent asked for help in selling his collection. I accordingly faxed his cellar list to a number of the best-known fine wine brokers, many of them new attachments to established wine merchants, which now cluster in increasing numbers *around London. The* prices they quoted are shown in the table.

I sent out my faxes on Sunday evening. Farr faxed back within an hour, with nice round figures representing what it would sell the wines for, pointing out it would take a 10 per cent commission to act as broker, and would pay 15 *per cent less for an immediate* cash sale (hence the odd-looking figures).

Corney & Barrow replied on the Monday and Berry Bros and Bibendum on Tuesday. Although there was considerable variation between prices for individual wines, the total amounts offered did not vary enormously. Energetic wine vendors should clearly be prepared to cull many quotes and sell to more than one buyer.

In fact the anosmic Dorset wine collector rang Farr off his own bat two weeks later, spoke to another dealer, and eventually took his higher offer, of £8,600, for the *collection*. Taking storage charges into account, even this represents a profit since 1986 of hardly more than £1,600, not exactly a dazzling return on investment.

The increase in prices offered by Farr over such a short period (and the prices quoted by Reid Wines this week) reflects the heat of the *market. It and a number of its* rivals, are currently keener to buy wine – classed growth bordeaux, top quality burgundy and the like – than sell it. There is a shortage of suitable wine to sell to new wine collectors, notably in east Asia, and Bordeaux merchants are feeling too bullish to be offering great deals.

The auction houses, Christie's and Sotheby's, may help to set prices, and are undoubtedly best at selling rarities for which there is no market rate (provided some reserve price is agreed upon in advance). Their charges of 10 and 15 per cent, plus VAT to buyer and vendor respectively, however, can make them a less obvious and convenient choice for "commodity wines" such as these blue chip 1985s, which are widely available within a well-defined price bracket.

The 1985 vintage of red bordeaux may not have appreciated that much in value since it was first offered, in 1986. The 1983s have similarly languished, but prices of the glamorous 1982s, which emerged on *the market at distinctly* unglamorous prices, have soared, to an almost ludicrous extent.

As Stephen Browett, of Farr, says: "Cheval Blanc 1982, now at £200 a bottle, is more expensive than Cheval Blanc 1955, which is a dream wine – one of the best wines I've ever drunk. You can't justify some of these prices."

To sell or not to sell depends on the drinker's ability to divorce sensual pleasure from economic forces, but the market's thirst for fine bordeaux of *the 1982, 1986 and 1990 vintages* could presumably free up some cash to invest in the 1995 vintage – if it is as good as French wine producers are reporting.

One combination to avoid is 1992 claret and the Thresher/Bottoms Up/Wine Rack group of retailers which is currently charging approximately double Oddbins' prices for such wines *as Chx Léoville-Barton, Pichon*-Longueville and Haut-Brion 1992. On the other hand, do not buy Ch Angelus 1993 from Oddbins at £29.99; Lay & Wheeler, *of Colchester, Essex*, is offering it at £19.52. But if you can possibly locate any of Oddbins' bin end, the stringently selected, *surprisingly* dense Ch Lagrange 1992 at £9.99, you have a bargain.

A red bordeaux bargain gentler on both palate and pocket is Chairman's Claret 1989, essentially the second wine of Ch Beaumont in the Haut-Médoc, on offer at £6.98 from Eldridge Pope of Dorset (0800-378757) and Reynier Wine Libraries of Bristol, Exeter and London 0171-481 0415.

Appetisers / **Jill James**

Good food back on the rails

Those were the days. When British trains ran on steam and brown windsor soup. You could sit in a Ladies Only compartment in comfort and complete silence. Today, no such luck.

On British Rail there are no separate compartments for women (at least not on any train that I ever travel on) and, in First Class, men in suits hold court on mobile phones so loudly that it is often impossible to read a book.

The only refuge from the philistines is the restaurant car. And on one line at least, things may be looking up. In conjunction with Welsh Food Promotions and Great Western, customers on selected rail services between Swansea and Paddington can sample Welsh dishes developed by chef Brian Turner.

All will be freshly prepared in the restaurant car with prices ranging from £2.35 for leek and potato soup to £3.25 for smoked mackerel mousse. Main courses will be Welsh fillet of beef and *Cig Oen Caerphilly* – Pembrokeshire escalope of lamb filled with minced lamb, chopped leeks and Caerphilly cheese served with parsley butter.

Taste of Wales menus will be served Monday to Friday on the 11.32am and 12.32pm Swansea to Paddington services and the 12 noon and 6pm services from Paddington.

■ A food lovers fair, featuring more than 20 specialist producers from the UK will be held at St Christopher's Place in London's west end from Thursday to Saturday, noon until 7pm. Admission is free but a donation from the proceeds of each stall will go to charity.

Produce will include spice cakes, cheeses, bronze turkeys, wild mushrooms, Christmas puddings, cakes, preserves, Somerset cider brandy and much more.

There will also be cookery demonstrations.

FOOD AND DRINK

Coffee for a nation of tea drinkers: how it's done at London's Savoy hotel

Ashley Ashwood

Sweeter than 1,000 kisses

Giles MacDonogh asks an expert to introduce him to the delights of fine coffee tasting

In the 1940s, Professor Henri Enjalbert of the University of Bordeaux wrote a fascinating thesis on the "drinks revolution" of the 17th century. He explained how before that time a drink was simply a drink, but that refinements in vinification and other techniques led to the notion of connoisseur drinks.

He included not only wines such as claret and burgundy, which changed their nature at that time, but sparkling champagne, sherry and port, which scarcely existed before.

The broad-minded professor also included coffee and tea, which became popular in this – one hesitates to use the word – watershed period in the history of drink.

The first coffee houses were opened in Europe in the second half of the 17th century. By the early 18th, coffee addiction was already seen as a mild social problem, as J.S. Bach reminds us in his light-hearted *Coffee Cantata* of 1733: "Oh, how true that coffee bliss is/Sweeter than a thousand kisses."

I have been reading Jon Thorn's new book *The Coffee Companion* (Apple Press, £15) which goes a long way to explain the multiplicity of different tastes which can be obtained from different plants, soils and altitudes.

If coffee does not have quite the vinous nuances of single estate teas, there is a world of difference between a top coffee such as an Ethiopian Harrar Longberry, a Puerto Rican Yauco Selecta or an Old Java and the sort of commercial blends bought from the local supermarket.

I was intrigued enough to ask Thorn to talk me through a few different coffees at the coffee merchant H.R. Higgins in Mayfair, London. Higgins started in South Molton Street in the middle of the last war and moved to its present location in Duke Street in 1986. The shop is now run by the founder's son, Tony, with his son, David.

Tony Higgins has himself lived through an important period in the

> The Ethiopian Mocha was almost cheesy, a Tanzanian Chagga rather nutty

history of coffee. When he started in his father's firm in the early 1950s Britain was still a nation of tea drinkers with only the vaguest idea about good coffee. Rationing had yet to end and people had to travel abroad to experience the good things in life. Then came the espresso bar. Coffee became fashionable.

I wondered whether this latter-day coffee craze had not been killed off by the birth of instant coffee. Higgins thought not. Instant coffee brought more advertising and marketing. The number of coffee drinkers grew and the quality segment of the market with it.

As far as their shop was concerned little changed: "We always had discriminating clients."

We went downstairs where the Higginses run the discreetest coffee bar in London, serving only top-notch coffees and teas, and no food. First I had to put my nose into a number of containers filled with different coffees. The Ethiopian Mocha was almost cheesy, a Tanzanian Chagga rather nutty. With the Brazilian Santos I was struck by the extreme oiliness of the beans. Tasting coffee turned out to be much like tasting tea.

The coffee was brewed in cups and nosed and tasted in dessert spoons. Higgins was clearly trying to make a point with the different regional styles. By themselves they were one-dimensional: the Mocha pleasantly nutty; the Kenyan marked by a fine acidity from being grown on the heights of Mount Kilimanjaro; the Costa Rican long, but lacking in bite. Then we tasted his Java-Chagga-Mocha blend. This had the aromas, the taste and the bite.

The Java-Chagga-Mocha was a mild-mannered drink compared with another house blend, the Creole: a combination of Colombian Libano and Brazilian Santos.

This seemed almost truffle-like by comparison. I was enjoying my introduction to coffee tasting, but I thought I had better get Thorn to drag me away, lest I got hooked.

■ *H.R. Higgins, 79 Duke Street, London W1. Tel: 0171-629 3913.*

Fish stew for the honest man

Giles MacDonogh enjoys a fine bouillabaisse on the Côte d'Azur

The news from France is wonderfully choice at the moment. Every day, it seems, the French newspapers name another naughty mayor who has been caught with his hands in the till or taking bribes.

The gamblers among us could earn a few bob by challenging friends to give an up-to-date figure for the number of French officials languishing behind bars. It might even make a useful addition to the stale old battery of party games this Christmas.

You must be fast on your feet to keep abreast of the news.

When I was in France in mid-September, I picked up a copy of the local rag for Hyères in Provence to learn that another local mayor had just been locked up for the usual business: issuing building permits in return for bribes.

I was sitting on the terrace of my hotel room at the time, looking out over the great bay at Le Lavandou and the marvellous play of light on the Iles du Port-Cros and Levant in the distance.

The news caused me a few moments of profound reflection as I surveyed the crude modern villas which so often mar the beauty of the coastline.

And Le Lavandou is unspoilt compared with the stretch of the Côte d'Azur between Fréjus and Menton. That is now just one super-conurbation centred on Nice and Cannes. Patches of charm are few and far between.

Le Lavandou's salvation has been that it became fashionable a generation later than Nice and Cannes. A few literary German exiles lived here in the 1930s, but the real impetus came after the second world war, when it became increasingly clear that unbridled speculation had ruined the coastline beyond Fréjus.

The Hotel les Roches was opened in 1947, the brainchild of a Monsieur Joeriman from Hyères, who bought a villa at Aiguebelle, a couple of kilometres along the coast from Le Lavandou, and gradually turned it into a luxury hotel.

A decade later this corner of the south of France received a further fillip when fashionable French society rediscovered Saint Tropez and Ramatuelle. This was the heyday of Brigitte Bardot and her friends, Günther Sachs and Roger Vadim.

All that publicity was too much for the little village of Saint Tropez. It too lost its charm as developers crammed all they could into its narrow purlieus.

The jet-set flew elsewhere, as they are wont to do, and their places were taken by the nouveaux riches. For 150 years it has been the same story, repeated a thousand times, up and down the coast.

But there are still, as I said, a few patches of charm. One is Les Roches which, as the name indicates, is tucked into the rocks above the minuscule resort of Aiguebelle.

To the east there is even a few miles of relatively unspoilt coastline with sandy coves and maritime pines just like the old pictures.

When the sun comes out (which it does, often) you have to be careful where you look: this is a nudists' paradise. They seem to be lurking behind every *agave*.

More important, perhaps, the food is good at Les Roches. At lunchtime in summertime there is a buffet arranged on the terrace looking out over the bay: wild boar ham, and a terrine made from another of his race, shot on the Massif des Maures: oysters from Bouzigues; a lobster served opaque (it must have been dipped in boiling water) dished up with a classic Provençal *sauce au pistou*; cold ratatouille, lamb or wild duck with romanesco sauce.

More elaborate dishes are served at dinner. One night I ate a *gratin* of crayfish with black pasta stuffed with truffles and *cèps* and some Sisteron lamb dressed with its kidneys.

A fresh salad of purslane was a revelation. So was the cheeseboard which included dozens of different products of the local hillsides.

The following night I braved the *bouillabaisse royale* which came in four huge helpings. In some ways I found it reminiscent of a traditional landlubberly *pot au feu*. As with the stew, first came the broth in which the fish had been cooked.

It was served with little rounds of dried bread and cloves of garlic. You rubbed the former with the latter and floated it in the soup.

Next came shellfish with chunks of John Dory and another *poisson de roche* known locally as the *chapon*. The saffron, olive-oil and wine-rich sauce was slightly salty and I wondered if the chef had followed the Saint Tropezien method of using a little sea water.

The next course brought the lobster in its shell.

Finally the John Dory and the *chapon* were brought whole to the table.

I had no room for cheese that night.

Yes, it was quite a treat that *bouillabaisse*, and it was all the more enjoyable eaten in the knowledge that there are a few crooked mayors out there who will not be having any for a long, long time.

■ *Information: Hotel les Roches. Tel: 00 33 94 71 05 07. Fax: 94 71 08 40. Rooms from FFr1,400 low season, FFr1,800 high. Meals: menus from FFr295; à la carte from FFr500.*

Cookery

Thoroughly modern menus

Philippa Davenport opens her mind to the best of the new

You would have to be a complete ostrich, gastronomically speaking, not to be aware of and influenced by some current trends in cooking and eating.

In certain respects I am exceedingly old-fashioned. I still believe in the concept of Sunday lunch. I see no reason to do away with roux-based sauces. I am probably more influenced by Constance Spry than Nigel Slater. And I am sick and tired of the fashionable over-use of the word "roast". In reactionary moments I plan campaigns to reinstate the term "baked" and that good honest Anglo-Saxon word "stew", too long ousted by the Frenchified casserole.

Yet my mind is open enough to welcome *The Modern Cook's Manual* by Lynda Brown (Michael Joseph, £16.99), a brave and ambitious attempt to rethink the whole question of what one needs to know in order to cook and eat well.

"In the past," she writes, "we were led to believe that the more professional skills we acquired, the better and more accomplished cooks we became: we would start by learning how to boil an egg, and counted ourselves as having arrived when we could bone and stuff a duck and give a flawless dinner party for eight."

Brown argues instead for individualism: "Good cooking today is simply being able to cook the foods and dishes *you* like, the way *you* like them ... Moreover you don't need to know how to poach an egg or make white sauce before you can risk grilling a chop or making a salsa."

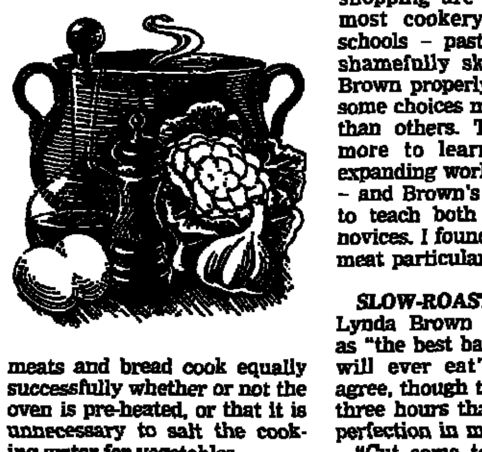
The precepts of generations of cookery teaching thus neatly demolished, Brown starts all over again from scratch, setting out to provide the know-how required to give modern-minded cooks the confidence needed to choose, use and enjoy good foods.

She advocates high-speed cooking techniques (and seeks to cut corners on lengthy ones) to suit today's lifestyles. The style is unfussy and the tastes are transglobal eclectic. In the modern manner, she is more interested in fish than meat, and makes greater use of grains and vegetables than is traditional in the British diet.

Nothing as old hat as a mousse or quiche appears in the book. Plenty of space is devoted to red peppers and aubergines, saffron and Thai spices, pestos and salsas, pasta, polenta, rice and pulses, barbecueing, char-grilling and stir-frying. Sure signs of our times – but may this selection not, in due course, appear dated?

The pages are packed with clear, concise yet detailed information, backed by lively recipes and quickie ideas to stimulate the reader's own kitchen experiments.

They are also spattered with contentious rule-breaking, some of it backed by convincing argument, some of it bound to raise sceptical eyebrows. Brown declares, for example, that pork tastes best and is perfectly safe when cooked to the pink stage, explaining to my satisfaction why the old taboo no longer holds good. But I cannot believe that roast



meats and bread cook equally successfully whether or not the oven is pre-heated, or that it is unnecessary to salt the cooking water for vegetables.

The Modern Cook's Manual is highly subjective but Brown's tastes and approach are in tune with today's young cooks, and the book contains elements that should appeal to any cook who does not want to spend chef-like hours in the kitchen, but who aspires to rather more than a chill-fresh and microwave style of existence.

What I like most of all is the emphasis Brown places on high quality ingredients as the key to good cooking and eating. The ability to recognise quality and the importance of shopping are subjects which most cookery manuals and schools – past and present – shamefully skimp or ignore. Brown properly discusses why some choices make better buys than others. There is always more to learn in the ever-expanding world of ingredients – and Brown's book has much to teach both old hands and novices. I found the chapter on meat particularly instructive.

SLOW-ROAST TOMATOES

Lynda Brown describes these as "the best baked tomato you will ever eat". First rate, I agree, though they took nearer three hours than two to reach perfection in my oven.

"Cut some tomatoes in half and place them, cut-sides up, in a dish. Sprinkle them with salt and sugar and drizzle with olive oil, allowing one mean tablespoon of caster sugar and about four tablespoons of olive oil per 16-20 large tomatoes.

"Put the dish in a very low oven (140°C/275°F/gas mark 1) and forget about it for 2 hours until the tomatoes have deepened in colour, are glistening and the cavities contain tiny amounts of clear tomato liquid. If the tomatoes do not look as described, leave them a little longer."

SPICED BUTTERNUT SQUASH WITH CORIANDER AND COCONUT CREAM

As Brown says in her book, one of the quickest and best ways to cook winter squash is to sauté it and finish it with curry spices or coconut cream. It may be gilding the lily but, since reading her on the subject, I have taken to using both ingredients in the same dish.

"Peel and cube 8-10oz of butternut squash. Put half a clove of garlic, one whole clove and one small split and seeded red chilli pepper into a sauté pan with one tablespoon of oil. Warm slowly to aromatise the oil. Add the squash, sprinkle it with a few pinches of pounded cumin, cardamom and coriander seed, and fry gently for 8-10 minutes until tender.

"Pour on 3-4 fl oz coconut cream" – for speed and convenience I use the newly launched coconut cream sold in a carton under the Barts label. "Let it bubble up and reduce briefly so it clings to the squash. Season with salt, scatter with two tablespoons chopped fresh coriander and toss to mix. Serve with warmed flat breads – on its own or to partner plain grilled meat."

■ Anyone whose appetite was whetted by my recent piece on the foods and cooking of Liguria may be pleased to hear of a Ligurian celebration which is taking place in southern England. From October 30 to November 4 a number of restaurants will all be serving the same Ligurian specialities.

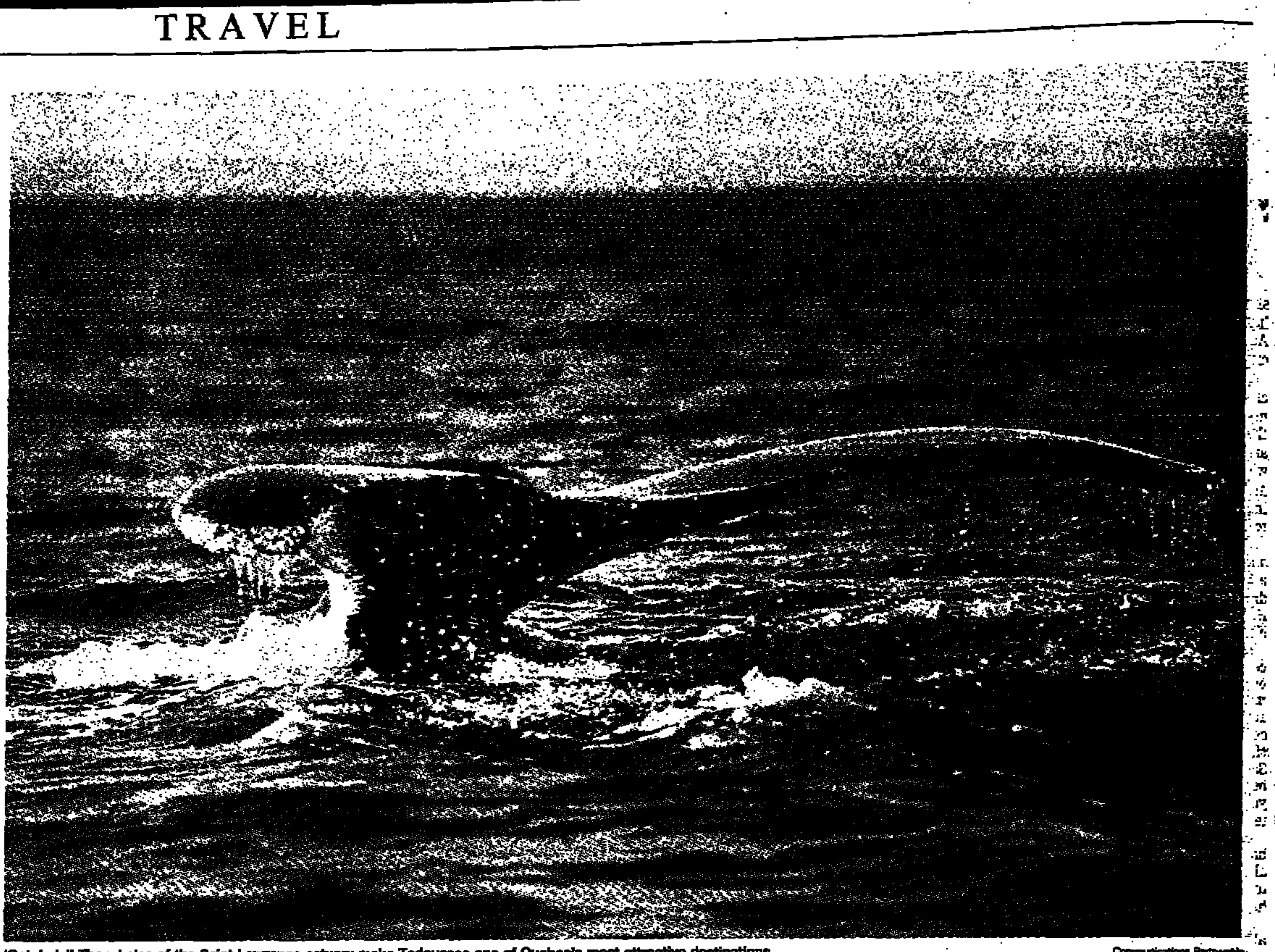
Antipasto dishes will include chard and artichoke pies and stuffed vegetables in the style of Ponentina. *Primi piatti* will include *trenette* (Ligurian pasta similar to tagliatelle) with pesto, and *ravioli di salsa di noci* (walnut sauce). *Secondi* will include *spigola* (sea bass) *alla Ligure*, and *coniglio alla sanremasca* (pan-fried rabbit). Sweets will be *pan del marinaio* (individual panettone Genoveses) and little cakes known as *stroscia*, which means "to break" in local dialect.

The participating restaurants are: Bertorelli's in Floral Street and Bertorelli's Café Italian in Charlotte Street, London W1; La Genova, London NW1; Just Franco, London N1; Mezzaluna, London NW2; Da Remo, Denham Village, Bucks; Don Antonio, Sutton, Surrey; Spaghetti Junction, Teddington, Middlesex; La Terazza, Ashford, Kent; and Umberto's, Farnborough, Hants.

TRAVEL

The last beer on the porch at the end of summer

Nicholas Woodsworth finds Quebec poised on the brink of new beginnings as autumn fades



'Ooh la la!' The whales of the Saint Lawrence estuary make Tadoussac one of Quebec's most attractive destinations

Communications Partnership

It was a fine, clear Labor Day – the kind of glorious day that Canadians, like squirrels collecting acorns, store away in their memories for fortification in the gloomy and ice-bound months that lie ahead.

In North America, Labor Day – the holiday that formally ends the summer season – is something of a ritual. It is the celebration a lazy summer now spent, and a bracing for a more rigorous season to come.

In the big cities, motorcycle clubs make their last hair-raising highway run of the year. In the affluent suburbs, backyard chefs whip up the last batch of honey-and-mustard marinade for the last batch of barbecue ribs. In outlying cottage country, it is the time for the last sail, the last swim, the last beer on the porch. Then the windows are shuttered for the winter, the car is loaded for the trip home, and normal working life is resumed. It is a time of new beginnings.

In the harbour of the little Saint Lawrence river town of Tadoussac, hidden on the edge of hills and pine forests 300 miles downstream from Montreal, it is also a busy time. Aboard the motor boat *Famille Dufour I*, I found I was was not the only one making a last, end-of-summer excursion through rural Quebec. Tourists from all over the world manage to find their way to far-flung Tadoussac.

"Oooh la la! Oooh la la!" a French tourist couple beside me repeated as we headed out on to a smooth, blue Saint Lawrence, here no longer merely a river but a salty, ocean estuary 15 miles wide. The object of their attentions was another, less common species of seasonal visitor – the whales which make Tadoussac one of Quebec's most attractive destinations.

A good deal calmer, a young French-Canadian woman stood to the other side of me with camera and telephoto lens. Rather than trying to see all the whales that were surfacing and spouting rainbow-hued plumes of vapour – we saw at least 40 that morning – she was training her camera on just a couple.

"We have named that one Le Bossu (the Hunchback) and the other is Grand Galop." She pointed, speaking to me in the inimitable accent of French Canada. It is such a peculiar rendition of the language that even the French couple beside me had difficulty understanding.

Every spring, Caroline Tremblay leaves her home town deep in the Quebec forests and spends the summer on the river, working for the Tadoussac-based Marine Mammal Research and Education Group.

She was currently working on a photo-identification project, trying to establish patterns of annual summer whale migration in and out of the estuary. Like most Quebecers, she was friendly and enthusiastic, and took the time to explain to me why Tadoussac claims some of the best whale-watching waters in the world.

The submarine topography off Tadoussac, it seems, is unique. A trough more than 1,000ft deep runs along the north shore of the Saint Lawrence, bringing cold, nutrient-rich water hundreds of miles upstream from the Atlantic. The trough comes to a sudden dead end off Tadoussac, and the resultant upwelling creates a dense concentration of food near the surface. Here there is phyto-plankton in abundance and thick clouds of krill – the tiny shrimp many whale species feed on.

"For whales, birds, seals and many other animals this is like a giant underwater supermarket," Caroline told me. "It is all here simply for the taking."

It appears then that, in the underwater world at least, there is such a thing as a free lunch. I enjoyed watching the whales – the energetic minkes; the elegant pods of ghostly, snow-white belugas; the giant fin whales. So, too, do other visitors. Each year more than 300,000 people come to Tadoussac for the whales. With 52 commercial whale-watching boats in operation, this is not so much a gentle pastime as a galloping industry.

Not so long ago, the little town of Tadoussac was a quiet and isolated place. Now – like all of the province of Quebec – it is in the midst of a sea change. Whales are just a part.

That afternoon, I dropped by the Pilot House, one of the oldest buildings in what, for Canada, is an old settlement. It sits in the most strategic part of Tadoussac, the stony point at the confluence between the broad Saint Lawrence and the spectacular, fjord-like Saguenay River.

Its shores rocky and precipitous, its depths un-bridgeable – it, too, is more than 1,000ft deep – the Saguenay is judged by some to be the most beautiful of all rivers in a land famous for its waterways. But it is not the safest. Submerged reefs guard its mouth; 15ft tides climb its banks; seven-knot currents surge along its course. Still wild and lovely, the Saguenay has required river pilots ever since 1600 when French colonists built Tadoussac's fur-trading post, the first in French North America.

Harold Price was at home. A red bandana around his neck, a chef's apron around his waist, he was in his kitchen deeply involved in end-of-summer culinary pursuits: the drying of mint and basil plants from his backdoor garden, the smoking of freshly caught rainbow trout, the concocting of *soupe aux carcasses*, a local French-Canadian speciality.

Harold is neither French-Canadian nor a fur trader nor a river pilot, but his Tadoussac roots are unquestionable. His great-great grandfather, a Welshman, came to Tadoussac from Montreal in the 1830s and set up one of the first timber mills here. Local timber supplies were eventually exhausted, but the Price family was not. They have been summering with great satisfaction in Tadoussac ever since.

We sat eating soup in the low-beamed, wood-planked sitting room of the Pilot House – we might have been dining in a schooner's stateroom – and watched the St Lawrence swell slide up and down the rocks outside the window.

Every now and then Harold would pick up binoculars to watch traffic passing through the mouth of the Saguenay: a group of sea-kayakers completing the five-day trip down the river; the ore-freighter *Red Rose* heading upstream to the Chicoutimi smelter with a load of bauxite; the Saguenay ferry carrying cars to the coast road leading west to Quebec City and Montreal; a friend heading out for an afternoon's sail among the whales.

Like anyone who spends time here, Harold Price long ago fell in love with Tadoussac, where rock and tree, salt- and fresh water all meet in a place of great beauty. But he laments the passing of an older Tadoussac.

It all began with the whales, he admits, explaining that Basque whalers and fishermen were the earliest outsiders to come upon Tadoussac – the name is thought to derive from the Basque word for paradise.

But whaling was succeeded by fur-trading, fur by lumbering, and lumbering by a sedate form of tourism. By the turn of the century Tadoussac had become a peaceful summer resort for a handful of affluent English-Canadian families from the cities.

"No one paid any special attention to the whales – you went out sailing or fishing and saw whales, but that was that," Harold told me. Summer people came and went and Tadoussac remained what it had always been – a poor and isolated French-Canadian village.

"That all disappeared in the late 1970s, when the world discovered ecology. Suddenly whales were the thing. Now there are 500 hotel rooms in town, locals are turning their homes into boutiques, and taking the Saguenay ferry on a Labor Day weekend is a living hell. Things are changing so fast we don't know where we are going."

It is not only the economy that has changed. As I strolled the busy streets of Tadoussac, I reflected that this Labor Day and the coming season held out more prospect for change and new beginnings than any preceding it. For months the *Parti Québécois*, the separatist political party which holds power in the province of Quebec, had been gearing up for a referendum on Monday on the emotional issue of independence.

Would Quebecers choose to leave Canada and create their own state? So much of the history of the country – whether whaling, fishing, fur-trading, lumbering, or the pleasurable pursuits of the northern summer – is shared by both English and French Canadians that it is hard to imagine the separation of the two.

By referendum day, Tadoussac will be deserted and silent again – its boats hauled up, its hotels empty, its inhabitants tucked away in warm homes and ready for the first flurries of winter. This time, though, the town's inhabitants, like the inhabitants of the entire country, will be straining through that silence to hear news of Canada's future.

Skiing

Myths that haunt Norway

Arnie Wilson finds the country light, warm and surprisingly affordable

High-life at Hemsedal: for families seeking a pleasant alternative to the Alps, Norway could be a find

After completing my very first week of skiing in their country, the Norwegians are anxious that I pass on the following message:

"It only gets dark at night time. It is no colder than in any other mountains in Europe. Many things are cheaper than in the Alps, especially lift passes and ski rental, and there are hardly any queues on the slopes."

I can certainly vouch for the daylight, and they seem to be accurate about the rest of their claims. Even here in Oppdal, the most northerly of Norway's main ski areas – 75 miles south of Trondheim, just about as far north as the southern tip of Iceland – it was still quite light at 5.30pm in late February. The lifts close at 4pm (4.30 in March).

It is only in northern Norway, beyond the Arctic Circle and hundreds of miles from the commercial ski areas that the sun sets for the early winter months. Elsewhere, the sun not only comes out but is often agreeably warm, at least during February and March.

Lift tickets and ski rental are cheaper than in the Alps by a third or more on average. The food, especially fish dishes, can be outstanding. And the natives, although descended from Vikings, are friendly. As the Norwegians are at pains to point out, the Vikings "were not just a race of bandits who raped and plundered Europe, but master boat-builders, tradesmen and courageous explorers".

The "cold, pitch black Norway" myth has haunted the Norwegians ever since British skiers started abandoning Norway for the Alps in the late 1960s. With the arrival of package holidays to the Alps, Norway, the birthplace of skiing (at least of cross-country and ski jumping) dropped out of favour as France, with its huge, purpose-built resorts, proved too tempting.

In those days, Norway was reputed to be "a feast for the eyes but a nightmare for the wallet". Only 10 years ago a travel guide to Norway suggested: "You do not need to search for bargains in Norway – there aren't any."

During the last decade, however, prices in the rest of Europe have increased at a faster rate. Now, thanks to Lillehammer and the 1994 Winter Olympics, Norway is staging something of a revival. The Norwegians are anxious to strengthen their grip, particularly on the British market and seize the opportunity to get the formula right.

They have the mountains (although they are certainly not as big as the Alps, but many have a vertical drop of 2,000ft or more). They have snow and half a dozen or more quite good ski areas. And they have the technology (Hemsedal alone has three quad chairs with three more planned).

For many British skiers, especially families looking not for vast ski networks or precipitous black runs but a pleasant alternative to the Alps, Norway could be a find.

Not that it completely lacks challenging skiing. Geilo and Voss, both attractive little towns, have some quite steep slopes, though they are limited in number. Voss in particular has some genuine black runs and good off-piste.

Hemsedal and Oppdal each have a handful of steep cruising runs graded black which would keep most skiers on their toes, including Alberto Tomba who raced in Oppdal in a world cup event. Hemsedal has long been the training base for Kjetil André Aamodt, Norway's overall world cup champion last year.

Both resorts have some good off-piste – particularly Oppdal, where there are large expanses of ski-where-you-like wilderness around Adalen, Vangslia and Blaoret. Hemsedal is well-known for its tree-skiing and an off-piste itinerary, Reidarskaret, which starts with a savage couloir that is usually too dangerous to ski unless snow conditions are unusually good.

Unlike the Alps, there is no real tradition of skiing with a high mountain guide in Norway, but in Oppdal, Steingrim Viken runs a company specialising in off-piste skiing, ice climbing (by moonlight if you wish) dog-sleigh driving and snow-hole techniques.

Reassuringly, Stein equipped us with avalanche transceivers, which are little-used in Norway. Indeed, we were assured that in Geilo "there has never been an avalanche" which rather confirmed our feeling that the skiing there is never likely to attract experts.

Oppdal, on the other hand had a serious avalanche in 1969 when five women and two men, all in their 20s, perished on Skarbekkdale (literally Canyon Creek valley) during a blizzard one terrible March morning after record snowfalls. We skied the same run in near-perfect conditions. It was a poignant descent.

That evening we had to decide whether to attend a "Viking Evening", with "music, food and transport".

What could this mean? One of those dreadful Benidorm-type evenings with vodka and horned-helmets instead of sangria and flip-flops.

As it turned out, it was a mild and tasteful occasion held in a Viking-style roundhouse – so mild that some guests were disappointed by the lack of high spirits. The "Viking" music turned out to be Torstein Luno, head of the local roads department, on the accordian.

But there are other attractions in Geilo. One is a dessert called Sigurd's Favoritt – ice cream and fruit salad heaped high with sugar representing the beard of the town's most notorious character, Sigurd Solberrg.

His biggest scam was fooling the people of Geilo that he had won a fortune on the football pools. He invited the entire population to the hotel and was only unmasked after the locals had drunk the entire stock of champagne.

"But Sigurd is not going to prison because he is our only character," explained Geilo's tourist director, Birgit Hausen. Far from it. The town even put on a play depicting the incident. And Sigurd played himself.

■ *In Norway, Arnie Wilson stayed at the Highland Hotel, Geilo, the Skogstad Hotel, Hemsedal and the Nor Hotel, Oppdal. His visit to Norway, Sweden and Finnish Lapland was arranged by Ski Scandinavia, 10 Grange Avenue, Leicester LE3 3HR. Tel: 01533-395000*

TRAVEL

The witchcraft capital of the world

Michael J. Woods goes to New England in search of the traditional Hallowe'en experience – and finds it a family affair

The shadowy walls were festooned with cobwebs, spiders crawled across the ceiling, a grinning skull glinted in the flickering light of several dozen candles. At the bar I was served by a crocodile.

A cadaverous waitress clothed in black showed me to my table. Across the room three witches with tall hats and hooked and warty noses were feasting on pizza, tearing at the crust with their remaining teeth and cackling noisily to each other.

On the next table a ghost and Frankenstein were having a candle-lit tryst. This was no dinner from hell, though, just Hallowe'en at a restaurant in New England.

Hallowe'en immediately precedes the feast of Hallowmas or All Saints' Day and was invented by Christians in about AD800 to allow their celtic congregations to continue the pagan festival of Samhain, celebrated on October 31 to mark the end of the year and the beginning of winter.

It was believed that Samhain, the celtic lord of death, allowed the souls of the dead to come back to their earthly homes for this one evening.

During the Samhain festival, all hearth fires were extinguished and the Druids built large bonfires with sacred oak branches on which plant, animal and even human sacrifices were made to encourage the sun to return in the spring. Their followers danced around the fires dressed in animal skins before carrying burning brands from house to house to rekindle the hearth fires and mark the beginning of the new year.

Trick or treat: New England schoolchildren in Hallowe'en dress — Michael J. Woods

As the centuries passed, traditions changed. People became fearful of being snatched by fairies and witches. Old women accused of witchcraft were burned on Hallowe'en fires.

Fires still form part of the Hallowe'en tradition in celtic areas, along with guisers – revellers in disguise – who go from house to house carrying turnip lanterns and performing a dance or a song in return for food and drink, often apples and beer.

The pragmatic churchmen of the 9th century embraced the pagan traditions, but over the ensuing centuries Hallowe'en fell from favour in the church. By the time the Pilgrim Fathers landed in New England, Hallowe'en celebrations were considered wicked and formed no part of their life.

This was not to last. The celebration of Hallowe'en had always been stronger among the celts than in England and when large numbers of Scots and Irish sailed to America in the late 1800s, they took the Hallowe'en traditions with them, modifying them to suit the new environment. The traditional turnip lanterns, for instance, were replaced by the larger and more flamboyant pumpkin Jack o' Lanterns.

Today Hallowe'en is enthusiastically celebrated in many parts of the US, as I discovered during a trip around New England. Here it is considered a thoroughly enjoyable family occasion and everyone takes part.

In several small towns the police stopped the traffic to allow schoolchildren in fancy dress, escorted by teachers disguised as witches or wraiths, to parade safely through the streets. Strings of children marched past, hidden behind ghoulish masks, concealed beneath sheets and trailing broomsticks.

Not all were totally enthusiastic, however. The chill of a premature winter made the scant costumes some of them wore rather uncomfortable. I overheard one disgruntled child complaining to his companion: "I look stoopid, I feel stoopid and I'm cold."

Many places organise ghost walks and hay rides, informal ghost trains during which the nervous are scared witless by spectral pranks and surprises. These can be elaborate and considerable preparation goes into them. During my visit to the New Hampshire Natural History Centre I came upon the staff planning the week's events, which included one of them, clad in a wet suit under a suitably horrific costume, lurking beneath the waters of the lake until he would rise from the depths to alarm his audience.

Great care is taken in the choice of pumpkins from which to carve Jack o' Lanterns. Roadside stalls and garden centres give themselves over entirely to the produce of pumpkin farms. Late one afternoon, as the low sun warmed the glowing skins of hundreds of assorted pumpkins in Brewster, on Cape Cod, I watched several families agonising over the size and shape of their purchases.

A lit Jack o' Lantern in the window or at the front door means that trick or treaters are welcome. In America this tradition appears to have none of the threatening overtones it has acquired in Britain. I spent Hallowe'en with relations in Vermont and their callers were rarely over 10 years old, all accompanied by a parent and wearing elaborate fancy dress.

A constant stream of children came into the house. One pair were dressed as drink cartons complete with straws. Another rode a magic carpet and there were any number of ghouls, witches and skeletons, all clutching carrier bags for their treats.

The leaves had all fallen. Snow covered the ground and capped the porch lanterns. Undaunted, each small child tramped in to collect one of 80 bags of sweets set out for them on a table. Even when these had gone and the lanterns were extinguished, a number of hopefuls still rang the bell.

Hallowe'en has a particular resonance in Salem, Massachusetts, where 19 ordinary citizens were executed in the infamous witch trials of 1692. The town calls itself the world capital of Hallowe'en and indulges in a programme of haunted happenings for almost three weeks before October 31.

These range from witchcraft lectures and broom flying lessons to a trick or treat parade in aid of the Arthritis Foundation. The transformation of a pagan sacrificial ceremony into a charity event must be one of the most radical revisions in the history of any festival.

■ *Michael J. Woods flew to New England on Virgin Atlantic Airline's London-Gatwick to Boston route (01293-747747 for reservations) and his fly-drive was arranged by Virgin Holidays (01293-617181). His itinerary and accommodation was organised by Discover New England (01303-226606).*

Fat Fat in Taiping

Robert Sandilands Frowd Walker stands stern and disapproving in the corner of the museum car park in the town of Taiping, Malaysia. Frowd Walker was a colonial administrator in these parts at the end of the last century.

Our man had a big nose and a formidable looking chin. A time-worn notice tells of his considerable exploits, particularly on the playing field. Ex-Sandhurst. Captained the cricket team there in 1869. Two years later he was playing football for England. A few years after that, he had switched to rugby, again representing his country.

Then Frowd Walker went off to serve the empire, spending more than 30 years in tropical parts. Not a bad sort of life, particularly being posted to what was always one of the more pleasant colonial outposts.

Taiping, about 100km from Penang on the west side of the Malaysian peninsular, has a quiet, small-town air about it. A grey-bearded sikh sits ramrod straight on the saddle of his old Raleigh bicycle, slowly sqeaking his way up the main street. A rotund Chinese trader climbs into an immaculately preserved Morris Minor car. The springs sag, the engine splutters into life.

In the middle of the last century, Taiping – or "the town of everlasting peace" – was a bustling tin mining centre. As tin fever swept the peninsula, gangs of Chinese miners fought for control of valuable mineral concessions.

Today, life is far more peaceful. The tin industry closed down long ago. One of the main occupations, as in most Malaysian towns, is eating. The "Fat Fat" seafood restaurant is doing a roaring trade. There is not a table to spare at the Prima noodle and coffee shop. A hawker sells sweetcorn from a steaming urn on the back of his scooter. An old lady with no teeth and dancing eyes sells hot peanuts.

I stroll along to a church service in Convent Road. The priest is asking the congregation if they have ever experienced a tingling feeling. An old man says he feels that his ears are full of hot gas. A Chinese woman talks in a shrill voice. "I have been a spoilt woman." A girl with eyes like twin moons set in her dark face asks me if I have been saved. I blush with awkwardness.

At the turn of the century Taiping's enlightened planners turned a large tin mine on the edge of town into a public parkland. At weekends Malay and Chinese families go there for picnics and for endless photo sessions. Nearby, there is an allied war cemetery: it is like a parade ground, pristine and silent. Taiping saw some of the most bitter fighting against the Japanese in the early 1940s.

To escape the heat of the plains, Taiping's original settlers built a hill station high above the town. Maxwell Hill is Malaysia's oldest hilltop outpost, and the most unspoilt. The journey there is half the fun: no cars are allowed up the 13km track to the 1,250 metre summit. Instead, you bundle yourself in the back of an old government Land Rover and hope for the best as the driver, one hand on the wheel, negotiates 72 hairpin bends.

Up on top, it is another world: flowerbeds full of dahlias; tulip gardens; hedges of wild roses; and cold enough in the evenings for a pullover.

Accommodation is limited to a few rest-houses. You can try Watson, Treacher, Box or Speedy. At the latter the Indian keeper lit a fire in the evening, while his wife cooked a curry.

There is a dilapidated feel about the place. A bed is only M$15 (£3.80) per night. In a few years the ants will probably have digested the whole house. The mists sweep down the hill. The jungle talks incessantly. A tame porcupine wanders in for an evening feed.

The lights of Taiping stretch out far below. In the distance there is the crash of a thunderstorm over the Strait of Malacca. Frowd Walker probably stood here, king of all he surveyed, dreaming of the playing fields of long distant England.

■ *Taiping: 100km south of Penang and 270km north of Kuala Lumpur. Easily reached from either city on the newly opened north-south highway. The Maxwell Hill rest-houses can be booked through the Officer in Charge, Bukit Larut Hill Resort, 34020, Taiping, Perak, Malaysia. Tel: 05-8077241.*

Kieran Cooke

TRAVEL

A citadel to storm

James Henderson visits the restored fortress of Carcassonne

The citadel of Carcassonne is the finest example of a medieval fortified town left in Europe. Standing on high ground above the river Aude, it gives an impression of magnificent impregnability: 52 pointed towers and gate-houses linked by 3kms of crenellated double ramparts. As you approach, it shimmers with a dreamy and distant air of romance.

Carcassonne was restored by Eugene Viollet le Duc in the last century. In 1850 the citadel was under a destruction order and the stones from the walls were being auctioned off, but in a new spirit of preservation (until that time nothing was restored simply for posterity) the mouldering city was listed by *Monuments Historiques*.

The fortress and the cathedral were repaired, the towers and gates were rebuilt and their conical roofs added once more and new crenellations were added to the walls throughout. Gradually over the next half century Carcassonne was restored to the state of a 13th century fortress.

Once inside, Carcassonne is as compact as you would expect of a citadel, with sinewy streets that seek out every crevice. The buff stone and brown plaster walls are topped with terracotta tiles and have a comfortable feeling: in summer the walls and even whole courtyards are covered with vines, a perfect place to rest from the sun.

Surrounded everywhere by pointed turrets, you can almost imagine a real knight riding by over the cobbles, or a troubadour beneath a balcony, where a woman stands, her conical hat trailing white silk.

It is widely said that Carcassonne is all wrong, that it tips into quaintness. Suddenly the romance has become *cinematic* sentimentality, restoration run riot. By all accounts, Viollet le Duc worked to an exaggerated and idealised Gothic plan – supposedly he went overboard on his crenellations, made the gothic towers too pointed and used the wrong roof-tiles – with the result that Carcassonne ended up more medieval than it ever actually was. It was so controversial that some of the towers were eventually refitted with Romanesque roofs and tiles.

If Viollet le Duc invented the *medieval cliché, he cannot be* held responsible for the 20th century's medieval theme-park (Carcassonne is the second most popular place to visit in the whole of France). There are a few original artisans at work in the town, but it is mostly tourist shops selling pocket-sized cross-bows, knight-in-armour radios and Carcassonne walls made of nougat.

Viollet le Duc himself has undergone something of a restoration. It seems that his work here has been tarred by the brush of other projects, including the Château de Pierrefonds, where his idealisation of the gothic resulted in a mock-medieval fantasy.

In Carcassonne, away from the pressures of Paris, he had time to do all his archaeological and architectural studies and apparently had good reason after all for his restorations. The controversial Romanesque towers probably *did have pointed roofs* in the 13th century – after all, it was northern French king's architects who rebuilt the city and they were establishing his power in the area. The only significant thing that is still considered wrong is that he fortified the bell-tower of the basilica.

It is worth visiting the basilica, built in 1095, with gothic chancel and rose windows added in about 1260, and the Château comtal (a massive fortification within the town fortifications), but the finest thing about Carcassonne is really the walls, which date from the 3rd to the 13th century.

You do not need to be a historian to work out the different generations of building – the 3rd century Roman stones of the inner wall are smaller and they are topped by larger, more regular, stones from the late 13th century.

The few gates all have their machiolations and a corner to make enemy access more difficult. Each of the towers has its story too – Cathar heretics were judged in one (the Justice Tower), models of birds were placed on others for crossbow practice.

Perhaps the best time to see the walls is at night, when both inner and outer ramparts are floodlit, and there is calm after the tour buses have departed. A constitutional walk on the battlements is an excellent way to work off the bulk of a meal, if Carcassonne has made more of an impression on you – or your waistline – than you would like.

■ *James Henderson stayed at the Hotel de la Cite (tel 68 25 03 34, fax 68 71 50 15), a four-star hotel in the Citadel. Individual guides can be hired through the Syndicat d'Initiatives (tel: 68 25 07 04, or just inside the Narbonne gate).*

All wrong: has Carcassonne ended up more medieval than it ever actually was?

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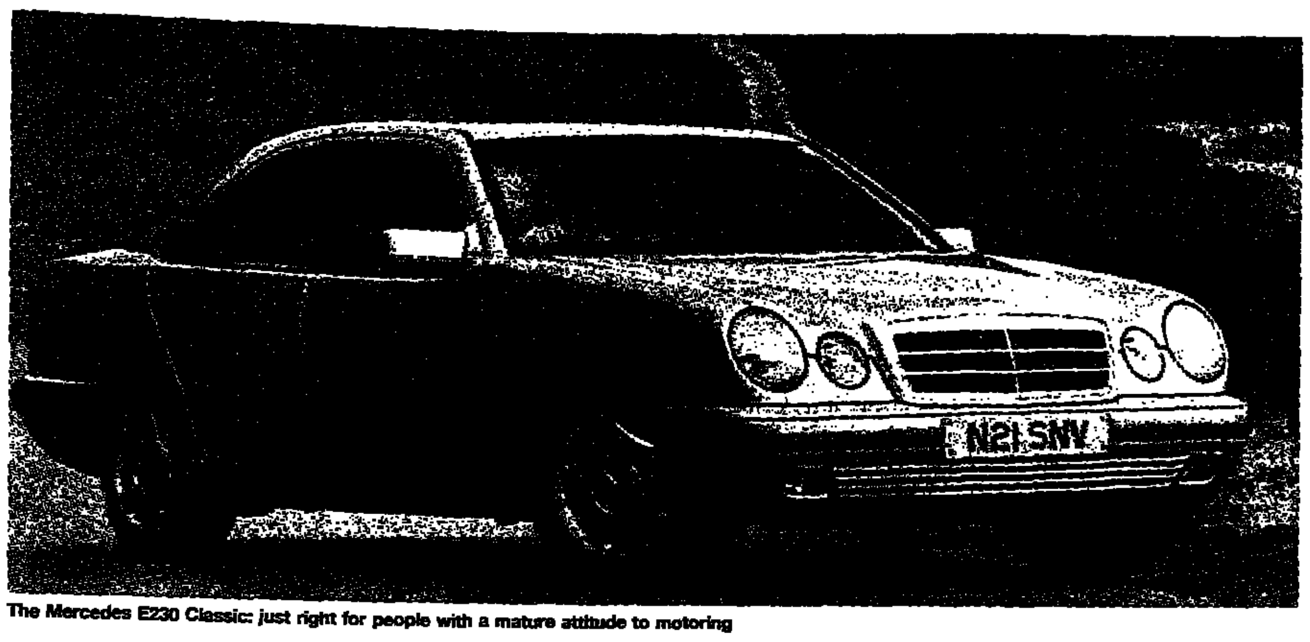

The Mercedes E230 Classic: just right for people with a mature attitude to motoring

Motoring / **Stuart Marshall**

Late – but feeling fine

How agreeable it all sounded. Catch the 10.45am flight to Pisa, pick up a car at the airport, drive mainly on mountain roads to Portofino, and watch the sunset from the terrace of a grand hotel before going in to dinner.

Alas, what should have been a one-hour drive to London's Heathrow airport became a 2¼-hour race against time on the roadworks-infested M25. Then a dash to the departure lounge, only to hear that take-off would be delayed because of striking French air traffic controllers. It was. By 4½ hours.

Dusk was falling as we landed at Pisa. A colleague and I climbed into a new Mercedes-Benz E-Class saloon and headed for the Genoa autostrada. From then on, everything went right.

There is something about a Mercedes-Benz that makes you feel good. As good as you might when, after a cold, wet day in the open, you put up your feet by a log fire and enjoy a glass of malt whisky.

But what is it about a highly specified Mercedes-Benz E-Class that makes life's aggravations evaporate? Well, the doors close with a soft thud and the seats power-adjust simply by touching the cushion and back-rest of a miniature bas-relief on the side panel.

Everything is reassuringly familiar. Indeed, the lay-out of controls and instruments barely changes as one Mercedes-Benz model succeeds another, and everything always works with precision and finesse.

An E-Class is as solid as a battle tank although it steers responsively, has handling as secure as Fort Knox, and is no noiser at high speed on an Autobahn than it is at a stately 70mph (113kph).

We first drove an E230 automatic, powered by a new 2.3-litre, four-cylinder, 150 horse-power petrol engine. It will be the biggest-selling model in Britain after the cars arrive in January. The other four-cylinder petrol engine is a 136hp, two-litre and there is a pair of in-line sixes: a 2.8-litre with 193hp and a 3.2-litre developing 220hp.

Carried over from the former E-Class – which was the most successful car Mercedes-Benz has ever made – are 2.5-litre, five-cylinder and three-litre, six-cylinder diesel engines with modest outputs of 113 and 136hp respectively – modest for their cylinder capacity because they are not turbo-charged.

The E250D automatic, which we drove up into the hills next morning before heading back to Pisa, carried a bit more weight on the front wheels and had less power than the petrol-engined E230.

Its smooth, five-cylinder diesel sang like a baritone when climbing hard in the lower ratios but, on the autostrada, any engine noise was drowned by the subdued swish of tyres and soft rush of the wind.

I am sure the E230 could have been pushed through hairpin bends more brutally than the E250D, which it would have beaten away from a standing start. And the six-cylinder, petrol-engined E280 and E320 models would, of course, leave an E230 standing.

For me, though, the E stands for effortless, not excitement. A Mercedes-Benz E250D – and, even more so, an E300D – approach my idea of perfection for people with a mature attitude to motoring.

Following a trend started by the C-Class – which, two years ago, replaced the Mercedes-Benz 190 – the new E-Class comes in three trim and equipment levels, Classic, Elegance and Avantgarde. Classic is the most traditional, Elegance the most luxurious and Avantgarde, said to be the sportiest, has larger wheels. All three models may be fitted with any of the engines.

Externally, the new E-Class looks sleeker and the elliptical headlamps are, for Mercedes-Benz, a startling innovation. Inside, it is roomier than the old one; about as roomy, in fact, as the previous S-Class.

Mercedes-Benz UK says typical drivers will be successful people in their mid-40s who run their own companies or are directors of larger companies. They drive about 18,000 miles (28,900km) a year, appreciate quality in everything they do, and probably play golf. In that case, they will approve of the boot: it looks as if it would easily take two sets of clubs in their trolleys.

Prices will start at about £23,500 for a two-litre Classic and range up to £36,900 for a 3.2-litre Avantgarde. You still have to buy your own in-car entertainment system but, providing you do without a sun roof, air-conditioning is a modest £595 option.

All models have such essentials as power steering, electric windows, air bags and electronic traction control. Automatic transmission is an extra on all but the E320.

Gardening

It's not too late for bulbs

Warm autumn means there is still time to plant, says **Robin Lane Fox**

Crocus Cream Beauty: cheap and very cheerful Garden Picture Library

This wonderful, warm autumn continues to have many virtues, but the most immediate is its help to planters of bulbs. We have all been at it recently and even the biggest narcissi have gone smoothly into the ground, while last year's plantings are doing their best to show through it.

Some of you have written to say that you have seen far-advanced growth already on your daffodils. One reader in Somerset swears she has flower buds on a spring-flowering crocus.

That the grape hyacinths are showing green thickets of leaves is not so unusual – nor that snails have started to eat them. Be warned that many failures with bulbs are due to slugs and snails, rather than the mice and squirrels which books tend to blame.

I now put slug killer on the most populated flower beds and am astonished to see how many sliming pests it kills in the early months of the bulb year. Experts tell me these pests are also active below the surface and are one widespread reason for so many tulips failing to reappear. Deep planting, 6-9in down, is said to be a defence; even so, my rate of reappearance is miserably low.

This year sees a change of tactics. Instead of tulips, I am going over to smaller, early-flowering forms of narcissus. Tulips will become extras, not mainstays.

The beauty of these small narcissi is that the strongest forms can be left in flower beds without lifting for several years. After flowering, they need at least six weeks' further growth before their leaves can be cleared away.

If you choose the early forms and knot any remaining leaves to tidy them up, you can bed out the summer annuals between them without digging them up. In autumn, they are ready to take over once again. Many of them will increase from year to year, whereas tulips only dwindle.

This obvious short cut has been slow to occur to me, but it is simplifying the autumn cycle already. For years, I believed wrongly that the small narcissus called Jack Snipe needed wet conditions like its namesake.

I thought the white-flowered Thalia was not hardy and that one called February Gold would be too strong a shade of yellow.

Each of these beliefs was wrong and stopped me realising that these particular forms are extremely easy to please in any open flower bed with reasonable soil. Jack Snipe does not need a bog; February Gold is not really gold and usually flowers in March; and Thalia seems to multiply even when facing north in shade.

The best of all is the vigorous Tête à Tête, which will multiply in those awkward squares of earth which have to be kept free of grass round the trunks of tall shrubs or small trees. For beauty, though, I give the prize to Dove Wings, although it is not cheap and many lists have now dropped it.

These narcissi are mostly over by mid-April and have, therefore, died down by late May when the bedding plants can be risked. I have poor soil, but Jack Snipe and Tête à Tête have multiplied into clumps after only two years in which mixed geraniums and heliotrope have been grown above them during the dry summer.

During this same period, the lovely, lily-flowered yellow tulip West Point has reduced itself from 30 bulbs to five or six, and the white and red striped Marilyn has vanished altogether. There seems to be no contest: in future, tulips will add a little decoration but small narcissi do most work.

Everything has continued to grow and flower so late that all the main bulb planting has had to be late, too. This pleasant fact consoles me, as I have never been a punctual planter and I cannot see that it has damaged my main bulbs' chances of survival.

Last year, I was still planting crocuses early in November. Despite this, they all came through and flowered well, beginning slightly later than others in an early season and showing no signs of distress.

If you have not yet done the bulbs, do not feel you have missed the boat. You should, however, try to see and pick the particular bulbs which you buy because they begin to develop mould or a slight softness as the tail-enders in many mail order firms' stocks. In a shop, you can see what you are buying and you can avoid distressed examples.

If I had to pick two small bulbs for ease and beauty, and one for close observation, I think my choices would be straightforward. The easy ones are that superb pair, crocus Blue Pearl and crocus Cream Beauty, small-flowering varieties which are better in flower beds than in grass where they tend to die out. They are still cheap because they are so easy and, deservedly, so popular.

For closer observation, I would plant two small pots with the remarkable ipheion Rolf Fiedler, a small bulb with open, flattish flowers of an amazingly strong, clear blue. The bulbs are not particularly cheap, but this selected variety is worth the cost and not at all difficult. It can sit in a cool part of the house until the growth is well through and can then be brought on to a desk or table, away from excessive heating, where its miraculous flowers will light up the evenings in March.

Lastly, a word about a bulb which has been as happy this autumn as any gardener. Everybody is on the look-out for easy, scented occupants for pots on their paving or terraces late in summer, but few people remember to try the semi-hardy acidanthera.

Its stems are about 2ft high among leaves shaped like thin swords, and the flowers are a clear white with a dark, purple-black stain at their base. They are like a wild sort of gladiolus, with which they are now classed.

Outdoors, they are usually planted in mid-May because they hate frost. As a result, they do not start to flower until late in autumn and they need a long, mild spell before the frost kills them off.

This year has seen them at their best, but we can all enjoy them in this way if we remember to order them in March and use them in pots, where they can be planted immediately and kept indoors until May is warm enough for them. This early start helps them into flower by late August.

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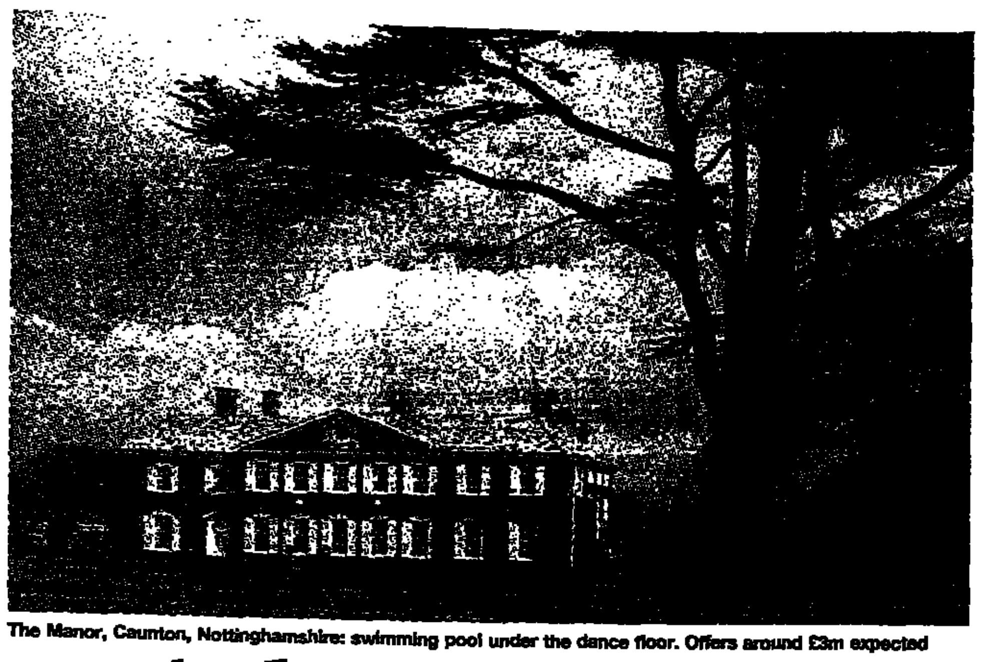

The Manor, Caunton, Nottinghamshire: swimming pool under the dance floor. Offers around £3m expected


Siddington House, near Cirencester: eight bedrooms, heated pool and two tennis courts for £650,000

A helicopter on the lawn

Rosalind Russell looks at homes for high fliers

Finding a home which will accommodate the family's fleet of cars is rarely a problem. Finding one with landing space for the family helicopter presents more of a challenge.

Often seen as a rich boy's toy, the helicopter has survived its luxury status-rating because it can save valuable time which might otherwise be wasted in a traffic jam.

As long as you are not carrying fare-paying passengers and the flight takes place within air law parameters, you may land on your own front lawn. How much land you need depends, says the Civil Aviation Authority, on the skill of the pilot.

The whole point of owning a helicopter is its ability to land in a small space. Rotor diameter is generally between 40ft and 50ft. With an adequate clearance margin of 50ft all round, the absolute minimum space required is likely to be 150ft across.

Each local authority makes its own regulations on noise, so it is wise to check if there is a restriction on the number of flights allowed each day.

Property developer Richard Anthony has used his own helicopter since 1989. He has owned three altogether and his current model is a Robinson 22. There are 200 of this type on the civil register of the British Helicopter Advisory Board, making it the most popular model, followed by the Jet Ranger.

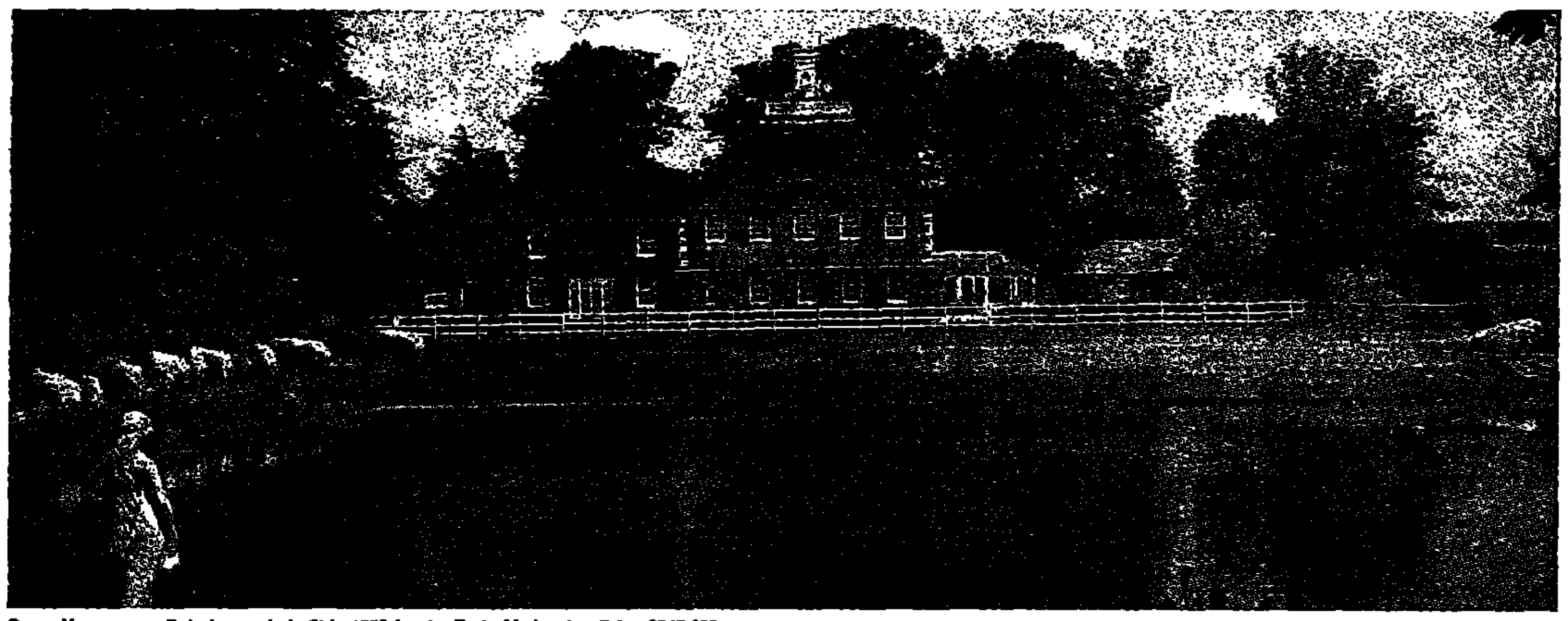
Without hesitation, Anthony says that if money was tight, he would sell his Land Rover Discovery and keep the Robinson. During the summer months, the helicopter sits on the lawn by the lake in the garden of his Cambridgeshire country house. In winter it is parked in a hangar.

The Anthonys have lived in Grove House, a Grade II* listed six-bedroom property near Peterborough, for nine years. Says Anthony: "We try to restrict helicopter movements to a couple a day, but we live on the edge of the village and don't fly over anyone when we're coming in. When I'm flying down towards London, I love to look at the traffic on the M25 – often jammed solid."

Grove House, thought to have been built around 1680 for the Earl of Leicester, has three acres of grounds and includes tennis court, outdoor swimming pool and stabling. Inside, it has a music room, panelled drawing room and sitting rooms, and a conservatory. Anthony has asked Bidwells to find a buyer with £545,000.

Michael Parry-Jones, of Browns estate agents in Guildford, reports that helicopter owners are interested in Reynards Wood near Haslemere because of its elevated position which gives a clear approach. The five-bedroom, white-washed property stands in 10 acres of grounds and is for sale at £495,000.

It is not unusual, says Knight Frank and Rutley, the estate agents, for a prospective buyer to view properties using a helicopter. The overview gives a better idea of the scale of the house and the surrounding land.


Grove House, near Peterborough: built in 1680 for the Earl of Leicester. Price £545,000

Lynton Aviation, operating out of Denham airfield in Buckinghamshire, says it can take clients to see up to 10 properties in one day. But it is not cheap to hire. A Squirrel costs £825 an hour, plus VAT. Nor is it always desirable. Rupert Bradstock, of specialist buying agency Property Vision, recalls taking a client to view a gracious country house, with instructions to land on the front lawn.

It was a hot day and the vendors had opened all the doors and windows on the ground floor. The lawn, alas, had recently been mown and as the helicopter touched down every blade of grass blew straight into the house. "The carpet was green, the curtains were green and the owners were speechless," says Bradstock. "Our client helpfully suggested that we could take off from the other side in order to blow it all back out again."

When Mitsubishi's Colt Car Company bought Siddington House near Cirencester, it had a helipad and hangar built in the 18-acre grounds. The company uses the eight-bedroom country house with heated pool, two tennis courts and converted barn as a conference centre and guest house. It ferries guests from the house to the nearby Badminton horse trials by helicopter, doubtless whizzing above many Mitsubishi cars jammed in the country lanes below.

David Miles of the company says: "The helicopter has saved valuable travelling time for senior executives, avoiding the problem of being held up on the M4. It means they can leave the office later and is very cost effective." A company reorganisation means Siddington House is now surplus to requirements and it is on the market with Knight Frank and Rutley for £650,000.

David Matthews, owner of The Manor, a Grade II listed seven-bedroom country house at Caunton in Nottinghamshire, also parks his helicopter outside his own front door. His son James prefers another speedy means of travel: he is the British and European Formula Renault Champion. He has been able to make good use of the tarmac roads laid out for use as a racing track around the grounds.

Inside, the house boasts a billiards room, drawing room with full-height library bookcases, gun room and staff accommodation. In the leisure wing, an oak dance floor can be raised automatically to reveal a 37ft swimming pool. The 18th century house, set in 30 acres of formal gardens and parkland, is well placed for fast communications. It is 40 miles from East Midlands Airport. Matthews is moving to St Bart's in the Caribbean and has asked Strutt and Parker, and William H. Brown to find a buyer. Offers around £3m are expected.

BOOKS

Misfortunes of the Getty dynasty

Philip Coggan counts the high costs for a family that appeared to have won the lottery

This is the perfect book for those who try, and fail, each week to win the National Lottery. It appears to recount, in great detail, the old cliché that fabulous wealth leads to unhappiness.

The tale could easily be reshaped as one of those airport novels which sustain tourists on the Costa del Sol. Jean Paul Getty, angry at a will which reveals his late father's dislike of his lifestyle, resolves to disprove the paternal judgment by building his own fortune.

He pursues women as remorselessly as wealth, marrying five times (mostly to teenagers) before tiring quickly of his wives when they become pregnant. Much of his fortune is tied up in a trust for the eventual benefit of the Getty dynasty, but money is all his sons receive; he denies them virtually all signs of affection.

The eldest son, George, who lived in awe of his powerful father, dies of an overdose. Another son, Ronald, is cut off from his inheritance because of Jean Paul's feud with his mother's family. Trying to make a fortune on his own, he becomes bankrupt. A third son, Jean Paul II, loses his wife to a heroin overdose and becomes a drug addict.

The tragedy also affects the third generation, most famously in the case of Jean Paul III, who has his ear cut off by kidnappers in Italy and eventually becomes a quadriplegic. The old man himself scarcely seems to enjoy his wealth, acquiring a formidable reputation as a miser, even requiring house guests to use a pay-phone.

PAINFULLY RICH: J. PAUL GETTY AND HIS HEIRS
by John Pearson
Macmillan £17.50, 349 pages

So far, so predictable. An obvious parallel is with the Kennedys, where the suffering of the younger generations has also created talk of a family curse. But at least the Kennedys are worthy subjects of study, since they produced a US ambassador to Britain, two US senators and a president.

What, apart from Jean Paul I's talent for making money (to which the book gives little space), justifies a book on the Gettys? Author John Pearson, whose best-known book was a profile of the Krays, seems to opt for redemption.

Jean Paul II recovered from his addictions, became a patron of the arts and cricket and was adopted by the British Establishment.

Jean Paul III has battled courageously to overcome his disabilities and enjoy as normal a life as possible. Indeed, Jean Paul I seems to have left something other than money to his sons; the indomitable will that had guided him to his billions.

But the hero of the book is the fourth of Jean Paul I's sons, Gordon, who not only seems bereft of his father's character flaws but managed, by the simple expedient of selling Getty Oil to Texaco, to increase the family fortune by more than the sum total of Jean Paul I's lifetime efforts.

Gordon preserved the dynasty, parcelling out the proceeds of the Texaco sale to avoid further legal disputes, and managed to bring up a normal family of his own.

It would be impossible to write a dull book about the Getty story and Pearson does the saga justice. But it is saved from predictability by Gordon Getty.

He, at least, partly disproves the old saw about money and happiness, by showing that it is possible to preserve some decency in the face of obscene wealth and a nightmarish father.

Strange but true romance of poets

A.C. Grayling uncovers a love affair that should capture the imagination

If ever there was a true love story at once stranger and more poetical than that of Elizabeth Barrett and Robert Browning, it has yet to be told. Yet, surprisingly, their story seems to have little grip on the general imagination.

Their love deserves to count as Petrarchian – perhaps indeed to count higher, because they were both poets who lived in exceptional times, and gave expression to their experience in work that has a high place in the literary canon. Yet in the history of literature in English their relationship occupies the footnotes, as if it is a tale too shopworn for retelling (a view reinforced by a sense that the early play-and-film of the affair – *The Barretts of Wimpole Street* – had said everything needful).

So, at least, matters stood until now. But Julia Markus has produced a powerful account of the relationship between Elizabeth Barrett and Robert Browning that restores it to proper focus. It is a quiet epic, full of dark shadows and extraordinary courage, from which the central characters emerge in very good light as emblematic Moderns.

Elizabeth Barrett's genius as a letter-writer is revealed in this account, in the brilliant acuity of her observations; and Markus shows that Browning, later the object of adulation among his fans, who attributed vatic importance to his sometimes obscure poetry, was a man of deep and attractive domestic affections. As Markus herself says, goodness and happiness do not generally make for interesting reading; but in this peculiar case they do.

The bare facts are these. Elizabeth and Robert began their love affair by letter, long before they met in person. She was 39, an invalid who had not left her bedroom for many years. By general acclaim she was our "greatest living English poetess", as a contemporary described her, and that is why Robert first wrote to her to say: "I love your verses with all my heart, dear Miss Barrett." Robert was 34, and almost unknown; he had a small but discerning following for his poetry, among which was Elizabeth, who had his portrait hanging on her wall.

DARED AND DONE: THE MARRIAGE OF ELIZABETH BARRETT AND ROBERT BROWNING
by Julia Markus
Bloomsbury £20, 400 pages

(When they met at last she was struck by how much more handsome and manly he was than the portrait suggested.) She thought him a poetical genius, and maintained that belief until she died in his arms after 15 years of marriage.

They had a considerable correspondence before she allowed him to visit. After that it was not long before they decided to marry. But there was of course the impediment of Elizabeth's bed-ridden state; and there was a worse impediment besides, in the shape of Elizabeth's tyrannical father, who refused to allow any of his many – and adult – children to marry. The two impediments were of course connected, but they seemed insurmountable.

Yet within months of the love affair beginning Elizabeth began to get up and walk downstairs, then take airings in the park, and at last to get about almost normally. In secrecy she and Robert married in Marylebone, and a week later, equally secretly, left for the continent. They did not, therefore, elope, as the popular view has it. Her father disowned Elizabeth utterly, and it was a long time before her brothers would speak to her.

The Brownings spent all their married life in Florence, living in the Casa Guidi (made famous by Elizabeth's poems) opposite the Pitti Palace, where they were witnesses to important events of the Risorgimento, whose poet Elizabeth became – especially in the eyes of Italy, which mourned her death more than England did. In her early 40s the ex-bedridden invalid found health at last, surviving four miscarriages and gave birth to a son, Pen Browning, and travelling much.

In her lifetime Elizabeth was more famous than Robert. As his *Men And Women* failed with the critics, so her *Aurora Leigh* was a best-seller, both in England and America. Until Robert inherited a competence from a relative it was her income that supported them.

But such matters did not bother them. Their relationship was profoundly supportive, even in the face of the two things that might have imposed strains: Elizabeth's lifelong opium addiction, and her later passion for spiritualism, which Robert – although open-minded – recognised for a hoax. Elizabeth liked to attend seances of famous mediums; perhaps she hoped to make contact with her beloved dead brother Bro.

The dark shadows in the story are well explored by Markus. Why was Elizabeth's father utterly set against his childrens' marrying? In these post-Freudian times we suspect all sorts of answers. But Markus skilfully marshals dramatically different evidence.

Both the Barretts and the Brownings had connections with the West Indies; the Barretts were wealthy slave-owners there, and it is said that a Browning ancestor used to mend Barrett boots in Jamaica. Very few colonial families failed to mingle slave-blood with their own. (Markus tells us that even if this often involved the worst kind of exploitation by white men of black slave-girls, there were other sides to the story: the black girls were typically more beautiful and wholesome than the white woman available for marriage; they knew that their children would be better treated if fathered by owners, so they were not always unwilling; and indeed many mixed relationships developed into *de facto* happy marriages.)

The Barretts accordingly had Creole cousins, and both Elizabeth and Robert each had at least one Creole grandparent. The simple fact seems to be that Elizabeth's father had a racist aversion to the idea of coloured grandchildren.

Markus's account of the Brownings' relationship invites applause for the way it revealingly unfolds from inside their correspondence and poetry. A walk in green shade, a surreal gallop through the night to Rouen, a witnessing of great political events at the Pitti Palace, are all made luminous by Elizabeth's exquisite observation. By her judicious selections and careful sympathies Markus has given us a compelling inner perspective on a true romance.

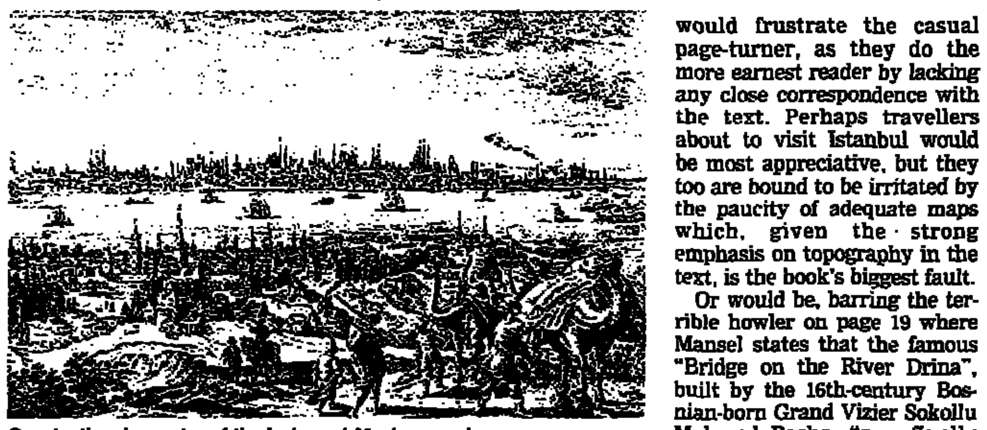
The dialogue between fashion and art is explored by Marie Simon in "Fashion in Art: The Second Empire and Impressionism" (Zwemmer £29.95, 264 pages) using paintings by Renoir, Manet, Vuillard and Whistler as well as contemporary fashion plates, including this 1875 illustration

Allure of city of desire

This is an alluringly packaged book on a mouth-watering subject: the history of Constantinople during its nearly five centuries as Ottoman capital, from Mehmet II's conquest in 1453 to Mustafa Kemal's abolition of the Caliphate in 1924.

The subtitle "city of the world's desire" (actually a quotation from an earlier period) perfectly captures the mixture

CONSTANTINOPLE
by Philip Mansel
John Murray £25, 528 pages



Constantinople: centre of the last great Moslem empire — Mary Evans

of awe and titillation with which generations of Europeans regarded the realm of the Sublime Porte, the legendary harbour on the Golden Horn, the meeting point of Europe and Asia, and the centre of the last great Moslem empire. So does the magnificent jacket illustration of an 18th-century Grand Vizier granting audience to the French ambassador, with the familiar skyline of domes and minarets forming a backcloth.

There are many tasty morsels inside, too. Sultans, viziers, pashas, janissaries, eunuchs and slave girls; Jews, Greeks, Armenians, Slavs; merchants, dragomans, patriarchs, dervishes: all are paraded before us in a shimmering verbal pageant. Yet somehow the book disappoints, and one is left wondering what exactly its purpose is. It is neither a work of primary scholarship, nor a text book; yet it lacks the strong narrative flow or passionate argument required to make an impact on the general public.

It would look fine on a coffee table but the rather small black-and-white illustrations would frustrate the casual page-turner, as they do the more earnest reader by lacking any close correspondence with the text. Perhaps travellers about to visit Istanbul would be most appreciative, but they too are bound to be irritated by the paucity of adequate maps which, given the strong emphasis on topography in the text, is the book's biggest fault.

Or would be, barring the terrible howler on page 19 where Mansel states that the famous "Bridge on the River Drina", built by the 16th-century Bosnian-born Grand Vizier Sokollu Mehmed Pasha, "was finally destroyed by Croatian bombs in 1994". Er, not quite. The bridge over the Neretva at Mostar, some 80 miles to the south-west, *was* destroyed by Croat artillery in 1993. But Sokollu's bridge at Visegrad, the subject of Ivo Andric's epic novel, was still standing when last heard of, and firmly under Serb control.

Edward Mortimer

Poetry/**Ruth Padel**

Musical miracles

This is Simon Armitage's fifth and best collection. His lyric virtuosity finds new holy ground to work on, tackling issues of creation and sacrifice in his deadpan mix of brilliance and hurt. The title poem, a musical miracle, undercuts wonder at creativity with heartbreaking detachment: "And I was travelling lightly, barefoot/ over bedrock, then through lands that were stitched/ with breadplant and camomile. Or was it/ burdock."

We get no question mark after "or". Travelling lightly, he cares not about plants, but about the sound of their names. "Burdock" and "breadplant" play with each syllable of "bedrock"; camomile echoes "lightly". This is *The Waste Land* revisited. Armitage's eerie, hi-tech facility often disturbs. Some readers feel words come from emotional limbo; used, not felt.

This new sad book addresses that very issue. The empty land fills with people who, in the long, rich-tapestried last poem, throw all they value on a bonfire. The book's key self-image, a lone, Christ-Dracula scarecrow, "the one tall thing in the flat of the land", becomes the lynch-pole (the "solid opposite of a chimney") of communal conflagration.

From non-feeling ("The anaesthetist"), Armitage moves towards feeling. In soft dialect, that makes the story new, he creates a "Cover Version" of the Annunciation as Europa's rape, ending with an "evergreen" tree. He questions the otherworldly creation of a meteorite come, like Christ, from heaven:

THE DEAD SEA POEMS
by Simon Armitage
Faber £6.99, 57 pages

"So what, a piece of flint, a cinder, set/ within the ring or pincers of my thumb/ and index finger like a precious stone."

Why care for such things, for burnt rock, or poems from "dead" seas? Because (like Eliot's lilacs from dead ground) they're here, they came. "The Meteorite" is a wonderful disempowered prayer of gratitude for inspiration:

"Flown/ so far, found land, for having come to hand,/ and put that way there's hardly anything/ this piece can't say. A line of plot, a script,/ and there and then this rock becomes a gem,/ a gift; your fingers open slowly, like/ a flower, from a fist. As if. As if."

His poetry mirrors our pre-millennial lost-in-space engagement with the world, never facing the depths of doubt and guilt.

This passionate exploration of non-passion is authentic religious questioning for our time, and in just the right voice: alienated, with tenderness around the corner, by its own apparently depthless grace.

Monumental splendours

Roubiliac is at home in Westminster Abbey, writes **Chloe Chard**

The funerary monuments inside Westminster Abbey attract equivocal responses: visitors are struck by the visual splendour of many of the sculpted assemblages in the building, but hesitate to accord them the kind of detailed scrutiny that they might devote to sculptures in art galleries.

This is partly, perhaps, because many of these monuments now seem disconcertingly – even comically – theatrical. Viewers are baffled, too, by the power of such works to throw established classifications into confusion: they blur the distinction between sculpture and architecture, and mingle private sentiment with public display.

In *Roubiliac and the 18th-Century Monument*, David Bindman and Malcolm Baker examine the work of the French sculptor, working in England from 1730 until his death in 1762, which enthusiastically seeks out effects of theatricality, and wittily exploiting the ambivalences of sepulchral art. Many of Louis François Roubiliac's sculptural tableaux, situated in Westminster Abbey and a few smaller churches, are separated from their setting by an illusionistic architectural framework, but nonetheless include elements that go beyond the bounds of this and demand the attention of the viewer: his figures often project a foot dramatically outwards into mid-air.

Private and public modes of commemoration, moreover, are ingeniously combined through elaborate layers of fiction. In a monument to Field Marshal Shannon, the mourning widow gazes dreamily up at her husband, who appears "in his youthful military prime" as a statue on a plinth, surrounded by an array of warlike paraphernalia, including a large, *trompe l'oeil* cannon which appears straight when viewed from the family pew.

Complex narratives are built up not only through the "real" figures of mourners, contemplating sculpted representations of the dead, but also through allegorical figures, interacting with the characters commemorated or with each other: the monument to Joseph Gascoigne Nightingale and his wife, in Westminster Abbey, incorporates a figure of Death, "slily creeping from a Tomb", and preparing to plunge a dart into Lady Elizabeth Nightingale (who died in childbirth, two decades before her husband).

Roubiliac's ability to manage elaborate scenographic effects proved useful in a genre that involved a strong element of dissimulation. In commemorating General William Hargrave, a soldier noted only for "vice and insignificance", the sculptor tactfully avoided any heroic imagery, and shifted the narrative time of the sculpture forward to the Day of Judgment: an angel sounds the Last Trump, a vast pyramid (representing material life) collapses, and the general (who died aged 79) rises from the tomb as a young man. A vigorous conflict between Time and Death provides further distraction from unsavoury biographical details.

Unashamed theatrical artifice of this kind might seem surprising at a time when writers and artists were beginning to endorse a cult of "sensibility", and vaunt the merits of sincerity and emotional spontaneity. Roubiliac's virtuoso style was not in fact viewed as utterly inimical to a "serious and mournfully pleasing" ambience. His lost monument

ROUBILIAC AND THE 18TH CENTURY MONUMENT: SCULPTURE AS THEATRE
by David Bindman and Malcolm Barker
Yale University Press £40, 409 pages

to Lord Petre formed part of a "Temple of Death" in a country house garden, and was placed behind a desk supplied with copies of contemporary poems (Edward Young's *Night Thoughts* and Robert Blair's *The Grave*) that muse upon the vanity of earthly things.

The monument itself was full of animation: Lord Petre is described springing up from the tomb, like Hargrave, "with a mixture of joy and astonishment, throwing aside the grave cloathes".

Roubiliac's monuments were criticised by some contemporaries for unseemly use of pagan imagery: James Hervey described the Hercules in the monument to Major General Fleming as "a huge brawny fellow ... with his posteriors half bare ... and in an attitude none of the most decent". At the same time, the sculptor's skill and subtlety were admired even by critics such as Oliver Goldsmith, who attacked "luxurious affluence" in funerary art.

Roubiliac himself appears to have worried only that he might appear insufficiently full-blooded: in Rome, after viewing the sculptures of Bernini, he is reported as exclaiming: "by G– my own work looked to me meagre and starved, as if made of nothing but tobacco pipes."

This book explores aspects of the intellectual and cultural context in which Roubiliac's sculptures were produced and viewed: both Bindman and Baker quote generously from contemporary sources, and often sound as though they are with difficulty restraining themselves from quoting more.

The end catalogue is especially helpful in combining technical information with analysis of the specific effects that the artist sought to achieve. *Roubiliac and the 18th-Century Monument* is full of interesting material and lively commentary: it leaves the reader with a strong sense of the sculptor's astonishing inventiveness.

هكذا من الأجيل

BOOKS

Joan Smith and **Cristina Odone** take conflicting views on the controversial attack launched against Mother Teresa

A suspension of belief

In 1969, the broadcaster Malcolm Muggeridge interviewed Mother Teresa of Calcutta for a BBC television documentary. His crew, which included the cameraman Ken Macmillan, visited a Home for the Dying staffed by her nuns and decided it was too dark to film the interior.

In spite of the technical problems, Macmillan went ahead and shot the scene; when the film was processed, the interior was bathed in an unusual, soft light. Muggeridge was confident he had witnessed a miracle. "I myself am absolutely convinced," he wrote, "that the technically unaccountable light is, in fact, the Kindly Light [Cardinal] Newman refers to in his well-known exquisite hymn."

It wasn't. Macmillan had taken with him some new and untested Kodak film, which was sufficiently sensitive to respond to low light. "I was going to say . . . three cheers for Kodak," Macmillan wrote in his own account of the episode, but Muggeridge got in first, announcing to journalists that Mother Teresa had caused "the first photographic miracle".

The Roman Catholic Church, in which Mother Teresa and the Pope stand at the apex as symbolic yet celibate parents, has no monopoly on gullibility; it is only a matter of weeks since Hindus flocked to temples in the hope of seeing marble statues drink milk.

But the subject of Christopher Hitchens's polemic seems to have a talent for persuading onlookers not just to suspend disbelief but to forgive the bizarre company she keeps.

The book opens with an account of Mother Teresa's endorsement in 1981 of Jean-Claude ("Baby Doc") Duvalier, the rotund dictator of Haiti, and his wife Michèle. The nun was captured on film observing that she had "never seen the poor people being so familiar with their head of state as they were with [Michèle]".

She had not revoked this opinion by the time the Haitian people, in Hitchens's caustic words, "became so 'familiar' with Jean-Claude and Michèle that the couple had barely time to stuff their luggage with the National Treasury before fleeing forever to the French Riviera".

THE MISSIONARY POSITION: MOTHER TERESA IN THEORY AND PRACTICE
by Christopher Hitchens
Verso £7.95, 98 pages

Mother Teresa's supporters say in her defence that she is too unworldly to pay attention to matters like the source of charitable donations. A more serious charge against her, backed up by a report in *The Lancet* last year and the testimony of volunteers who have worked in her Home for the Dying in Calcutta, is that the sick receive only the most rudimentary medical attention.

Hitchens points out that this lack of medical facilities cannot be accounted for by lack of funds – Mother Teresa's Missionaries of Charity have an annual income from donations which runs into millions and contrasts starkly with her preference for treatment in expensive Californian clinics when her own health fails.

These criticisms are solid and well-documented. Where the book disappoints is in its brevity and tone. There is scant biographical information, leaving to conjecture what methods Agnes Bojaxhiu, the daughter of an Albanian shopkeeper, employed to win herself an iconic position within the Catholic Church.

But Hitchens does at least challenge the mawkish cult of our only living saint and reminds us that the correct answer to the question put by outraged believers – "is nothing sacred?" – is a resounding no.

Joan Smith

Profaning the sacred

Why is it that religion inspires such fear in our intellectuals? Surely our society can accommodate both sacred and profane, believer and sceptic? Yet, since the dawn of humanism and its attendant replacement of a theocentric universe with a man-centred cosmos, members of the intelligentsia, armed with mockery and scorn, have felt compelled to wage a war of words against religion and its figureheads.

I had occasion to experience the bitterness of this feud in a television studio last November, when Channel Four invited me to take part in a *Right To Reply* programme.

The station had been deluged by complaints about *Hell's Angel*, its vitriolic portrayal of Mother Teresa. Conceived, written and presented by journalist Christopher Hitchens, the programme – of which *The Missionary Position* is, with a handful of additions, a written version – accused the 90-year-old Nobel Peace prize winner of being a cunning agitator for the right, a Machiavellian proselytiser of fundamentalist Catholicism, and a pal to every fascist and crook to cast his shadow across our times – from "Baby Doc" to Charles Keating (he of the US Savings and Loan scandal).

While Mother Teresa's defenders spoke of faith, self-sacrifice, charity – the signposts along her extraordinary spiritual journey – Hitchens talked of fascism, demagoguery and obscurantism. While the panellists strained to establish Mother Teresa's spiritual mission, Hitchens couched his attacks in political terms. This exchange at cross-purpose afforded me a sudden insight; Hitchens's invective merely papered a chasm of ignorance – the man is a religious illiterate. He knows nothing of the religious instinct: has no understanding of a revealed morality, of unalterable truths, or of the claims of conscience.

It is this ignorance – the only kind of illiteracy condoned if not courted by our present society – that informs his approach to Mother Teresa. Bereft of belief, he cannot come to terms with divine inspiration and cannot fathom what fuels Mother Teresa's words and deeds. When Mother Teresa visited Bhopal in the wake of the Union Carbide chemical spill, she urged those at the site of the disaster to "forgive".

For Hitchens, this betrays a sinister collusion with the oppressor; for a believer – or at least, one conversant in religious precepts – Mother Teresa was simply uttering one of the fundamental tenets of Christianity.

***The Missionary Position*, like *Hell's Angel* before it, is a kangaroo court in which Hitchens marshals facts and accusations in support of his argument as though each merited the same consideration. This travesty of truth-seeking delivers insinuation rather than information, right-wing conspiracy theories rather than evidence. As he bandies about allegations of Mother Teresa's secret allegiance with oppressive regimes, as he raids the stock of clichés about Catholic teaching on birth-control and abortion, Hitchens the prosecutor parades not so much his proofs as his prejudices.**

Although he raises a handful of potentially interesting questions – about the conditions in the hostels run by Mother Teresa's Sisters of Charity, for instance – – these issues require further investigation before they can yield enough facts and figures to support Hitchens's claim that Mother Teresa runs a sinister global multinational.

Cristina Odone

Journeys in anthropology

Bronwen Maddox looks at two different approaches to understanding other cultures

"Over a spell of two years I lived in a remote area of the Amazon Forest with a people called Wayapi." The opening of Alan Campbell's immersion in the jungle does little to set it apart from the host of Amazonian diaries and laments for threatened cultures which have hit the bookstands. But that is deceptive. He has used his journey as the basis for an original and fascinating analysis of language and imagination in Amazonian Indians and, more surprisingly, of that in western cultures as well.

Many writers turn to the Amazon as one of the world's last wildernesses. In it, they hope, they will find adventure and a cause about which to feel passionate, given the threats to the forest and the culture of the Indians who inhabit it. Campbell is no less fond than this band of describing encounters with fire ants or the agonies of stumbling through the jungle in the wake of a fitter, leaner guide.

But he distinguishes himself by using language, which he finds a more intriguing and formidable jungle than vegetation, as his route to understanding the culture, and to Waiwai himself, the Wayapis' chief. That enables him to tackle some of the central questions of anthropology and philosophy, such as whether there are ways of thinking or languages which could be impossible for us to penetrate.

A teacher of social anthropology at Edinburgh University, he sets himself to learn the Wayapi language. He has no translator, and no written aids except a list of 20 words jotted down by a missionary. He is illuminating on the pitfalls of translation, particularly the western tendency to use nouns and naming as a "wedge" into another language. If an Indian points to a bird and says "tukan", you are tempted to assume that something like "toucan" is the name of the bird. In fact, as he points out, the word may be a verb or adverb describing flight. It is, nonetheless, he concludes, an assumption you have to make simply to begin to unpick the language.

He is no linguistic relativist – he concludes that "the bafflement of Babel is accompanied by the miracle of translation", made possible by the flexibility and range of meaning in every language. But having overcome the linguistic barrier, he asks whether you can truly understand something in which you do not believe. Many would say yes, but he worries to the end whether he has really understood the central Wayapi idea of *paye*, translated loosely as shamanism or magic – or even understood Waiwai himself.

GETTING TO KNOW WAIWAI – AN AMAZONIAN ETHNOGRAPHY
by Alan Tormaid Campbell
Routledge £12.99, 253 pages

DANCING ON THE GRAVE – ENCOUNTERS WITH DEATH
by Nigel Barley
John Murray £19.99, 240 page

Refreshingly, he acknowledges that writing such accounts does "next to nothing to help the Wayapi in their struggle for physical survival" against the encroachments of mining conglomerates. He sees his account not as agitprop but simply as an account of the Wayapis' language and imagination, which he hopes will be accessible to the people themselves when their present way of life is destroyed. Bleak though that sounds, it allows for more optimism that parts of the culture will survive than do those accounts which focus simply on the seemingly inevitable destruction of the jungle.

Mourning a lost way of life is one of the few aspects of death not present in Nigel Barley's compendium. The study does not lose by the omission. While moving, often comical, and impressive in its astounding geographical range, his account of the social practices and symbols associated with death amounts to less than the sum of its parts.

Barley dislikes generalisations and theory. As he comments, "sociology has already paid the price of public hostility for wanting to put individuals in statistical cages". Instead, his technique is to juxtapose practices from different cultures, under headings such as myths, beliefs about ways to mourn, joking at funerals, and headhunting.

Often, the contrasts are startling. As he observes, "some cultures, most famously Ancient Egypt, have virtually bankrupted themselves to deal adequately with the death of a single person while others, such as the nomadic peoples of southern Africa, have done little more than pull down the roof on to the corpse and simply walk away".

Much is also amusing, in spite of the subject. A Chinese friend of his announced that he had offered a pig to the dead. "'A whole pig?' I asked, somewhat surprised. He laughed. 'No. We fool them. What we do is offer the head and the tail, maybe the feet. Then they fill in the blanks and assume we gave the rest too.'" However, the book sags under a cascade of diverse accounts. Consecutive paragraphs shuttle from Moslems, to Malayan Chinese, to the Balinese, to Egyptians. Anecdotes are located simply in "a Cameroon village I once lived in".

The style springs from his enthusiasm, but it also reflects the fondness of some anthropologists for cultural relativism – the position that no culture is superior to another. That approach has its virtues; Barley, for instance, is scrupulous in refraining from judgments on how people should view death.

But, in contrast to Campbell's philosophy, the approach is based on a deep suspicion that one culture can really be compared to another (Barley rejects pyschoanalysis as a tool to interpret symbols because he feels it would distort or misunderstand some cultures). As a result, the technique is essentially pictorial; more than television, perhaps, it deserves to be accused of a "bias against understanding". Saying anything more profound than that practices of death vary widely becomes near-impossible.

That is a pity, because Barley's stories provoke tantalising questions, such as whether living people ever feel free of the dead. Of the two authors, Campbell makes a convincing case for the virtues of depth over breadth in anthropology, or as the titles put it, of "Getting to know" over "Encounters".

Between 1935 and 1939 the anthropologist Claude Lévi- Strauss took more than 3,000 photographs in Brazil while working at the University of Sao Paolo. His photographic memoir "Saudades do Brasil" (the title is from "Nostalgia for Brazil", a musical composition by Darius Milhaud) is published by University of Washington Press (£26.95, 223 pages)

Speaking with spirit

Malcolm Rutherford on the woman who sets the standards

Gender is immaterial. The Speaker of the House of Commons is a nanny who sets standards and tells the rest of the members how to behave. The Tory party, in particular, loves it that way and even male Speakers delight in the robes and the wig.

So the fact that Betty Boothroyd is the first woman Speaker is only part of this story. True, there has not yet been a female chancellor of the exchequer, nor home or foreign secretary come to that, but there had been a female prime minister. Margaret Thatcher's premiership, like Boothroyd's speakership, must be judged on merit.

Some of the other facts about the choice of Boothroyd are more striking. Hers was the first contested election between government and opposition for the Speaker's office in more than 40 years. It was the first where there was a multiplicity of candidates.

The Labour Boothroyd won partly because of Tory support organised for her by the old Leader of the House, John Biffen, the Conservative MP for Shropshire North. She beat the more or less official Tory candidate, Peter Brooke, by 372 votes to 238. It also seems that she had been quietly campaigning for the job almost since she entered the House in 1973.

Boothroyd has made a mistake in not co-operating with this biography. Paul Routledge begins in a spirit of tribute. He says that he grew up in a Yorkshire mining town not far from Dewsbury, the textile home of the Boothroyds, and that his own family circumstances were even harder. In short, it starts like a paean of praise to a local girl made good.

Yet Routledge is too good a journalist to leave stones unturned. It turns out that Boothroyd may never have quite been the Tiller girl dancer that legend records. Her own recollections are varied, but it appears that she did not make it to the Palladium. There is something odd, too, about her stay in the US where some reports claim she was an observer with John Kennedy's election team. Routledge could not confirm this, but says she was probably a "general dogsbody".

There is no confirmation either of the view that Boothroyd began on the left of the Labour party when she initially worked for Barbara Castle whom she took as a role model. Boothroyd seems to have been firmly centre right all along.

MADAM SPEAKER: THE LIFE OF BETTY BOOTHROYD
by Paul Routledge
HarperCollins £18, 262 pages

None of this is written with animosity. There is great admiration for her determination. She fought five parliamentary elections in 16 years before being elected.

It was not entirely her fault that on entering she was almost immediately made a whip and therefore did not have to speak very much. She was embroiled in Commons business and steadily worked her way up.

She was also lucky in meeting a series of rich or about-to-be-famous men. Denis Healey, then the party's international secretary, spotted the "bonny lass from Dewsbury" in 1952 and gave her a speaker's prize for young socialists.

Later she worked closely with Sir Geoffrey de Freitas and the millionaire Lord Walston, though the most curious anecdote in the book is that she was at the same dancing school in Dewsbury with Marcus Fox, now – as Sir Marcus – the chairman of the Conservative 1922 Committee.

As Speaker, she has gone down well, but has yet to be seriously tested. The task may be harder if there is a hung parliament after the next election.

ARTS

Coming out from under the jackboot

William Packer on art under totalitarian regimes

It is nonsense to suppose that art cannot flourish under an authoritarian or despotic regime, or we would have hardly any art at all. Yet for the last half century, it has been critically politic, in regard to the art of the previous 20 years, to suppose exactly that.

The very existence of any worthwhile fascist or totalitarian art was all but denied. The Royal Academy's great survey of *20th-century German Art*, 10 years ago, for example, simply left the Nazi period as a critical void, while a year or two before, the Centre Pompidou's *les Realismes* only gingerly grasped the nettle, presenting a limited selection in strict critical quarantine.

The only alternative to denial was patronising mockery in unconscious reversal of Hitler's own Degenerate Art show in Munich in 1937.

The truth was always more complex. The first time I came across *fascist* as a neutral descriptive was in Venice 20 years ago, when the Biennale mounted a study of Italian architecture before the wars. It is significant that it was architecture that provided the excuse. For while it was no more than luck that no truly great painter or sculptor flourished under the patronage of Stalin, Hitler, Franco or Mussolini, the architectural legacy of their regimes is inescapable. Only now is it beginning to be properly addressed.

This remarkable exhibition at the Hayward is full of it. It supplies the unifying context of the international style and, in the occasional architecture of the Paris Exhibition of 1937, the particular example. For there the pavilions of rampant Nazi Germany (Speer) and Russia of the Great Terror (Iofan) confronted each other, with the pavilion of the beleaguered Spanish Republic (Sert) in between, and Picasso's *Guernica* within. It was a poignant, premonitory moment.

The irony is that the architecture of modernism was the chosen medium of the dictators even as they rejected as subversive the painting and sculpture of the avant-garde.

In graphic design too, the very modernism that was so suspect in terms of private creativity was openly embraced in the service of party and the state. To speak of totalitarian art is indeed to speak of propaganda, and in this exhibition, propaganda, in posters, emblems, exhortatory images,

> Innocuous if rather laughable tribute to the old League of Health and Beauty

again is everywhere.

But take away its banner of Lenin, and Samokhvalov's *Sports Parade* for Kirov might be just an innocuous if rather laughable tribute to the old League of Health and Beauty. Take the slogan from Muller's *Autumn Landscape* and it might be just another pastoral for a Batsford book-jacket or the Great Western Railway.

The subtle and contradictory point is that so much of the work that came out of Germany and Russia in the 1930s was, in spite of all political pressure, informed by the international modern style in the most general sense.

It was only the larding of propaganda, the posturing and the sloganising that renders it now, with hindsight, so pernicious and ludicrous to us. The fact that it served regimes so manifestly evil does not necessarily mean it was as bad in itself as all that, but only misdirected.

Take away the dressing, and its near-equivalent, second-rate academicism could be found anywhere in the contemporary western world.

The more profound lesson for us is against art that is thus limited to a particular message or, as we now say, issue of the day. Aids or feminism or New Labour may be more worthy causes than communism or national socialism but they do not make for any better art. Whether they were for or against their masters, the true artists simply got on with their work as best they could. And if their politics crept into it, it did so eliptically and ambiguously, by inference and suggestion.

The Spanish section, focused upon that Paris Exhibition of 1937, is the one example here of the avant-garde politically engaged in the service of the state. And while we can understand the depths of Picasso's despair, it is doubtful whether the graphic histrionics of his *Guernica* are at all as potent as Gonzalez's silent metal figures, or the more mysterious pessimism of Miro's dark still-life of bottle, fork and old shoe.

As for Mussolini's Italy – Italy was ever a special case. Its artists just got on with it, and rather well, making public murals when asked, like Sironi, or monumental sculptures like Arturo Martini, or going in openly for prizes, like the young communist, Guttuso. Or they stayed at home, like Morandi, painting sublime still-lifes.

The final section, the German, is the most poignant, for here the choice was starker between compliance and opposition. And that compliance was so often evasive, a retreat into an idealised pastoral never-never-land of blond youths and maidens, forests and cornfields.

Opposition was unspoken. Marcks's statuesque bronze swimmer, her legs delicately crossed, fixes her cap before the plunge. Schrimpf's two girls sit wistful beside the window. Oscar Schlemmer looks through to his neighbours, quietly at their dinner, half-hidden by the blind. And there, unbroken at the last, is Max Beckmann, the greatest German painter of the century, with his dark, magnificent, inscrutable triptych, *Carnival*.

And should there have been a section on the France of Vichy and Petain? Yes, of course.

Art & Power – Europe under the Dictators 1930-45: the 23rd Council of Europe Exhibition, the Hayward Gallery, South Bank SE1, until January 21: sponsored by Banca Nazionale del Lavoro.

Art that flourished under the Nazis: 'Diana's Rest 1939-40' by Germany's Ivo Saliger

Television/**Christopher Dunkley**

Missed masterpiece

Many people are irritated when television manages to create a clash between two series as good as BBC1's *Pride And Prejudice* (to which this column was devoted five weeks ago) and ITV's *Cracker* (to which this column was devoted last week). When the same slot – 9pm on Sunday – is simultaneously occupied by the first series in which the respected documentary maker Roger Graef abandons his usual habits and offers his own opinions on the prison system (*In Search Of Law And Order* on Channel 4) we are entitled to ask what the broadcasters think they are up to.

And when we find that the very same slot at the very same time is being used by BBC2 to show *Cinema Europe: The Other Hollywood* made by Kevin Brownlow and David Gill we surely have grounds for complaint. As a television critic I have three video recorders and easy access to preview tapes, but why should normal viewers, with one video machine and the option of watching the Saturday repeats of *Pride And Prejudice*, still be obliged to forego one among four of the season's best series simply because the broadcasters have decided to cram them all into the same space? Given that such a small proportion of programmes – 10 per cent? – is designed to appeal to the more discriminating viewer, it is infuriating to find so many of the week's small supply clashing head on.

Cinema Europe seems to be the series which has suffered most, in the sense that it has received the least attention, yet it may prove to be the longest lived and the most important. This year sees the centenary of cinema, and Gill and Brownlow have taken the opportunity to add the European counterpart to their huge 1980 series, *Hollywood*.

They are the two people chiefly responsible for the extensive and still growing revival of interest in the silent cinema. In 1980 they brought us the first "Thames Silent", the restored version of Abel Gance's astounding 1927 masterpiece, *Napoleon*, and each year since they (now working with Channel 4) have brought us at least one more scrupulously renovated work. Last year it was John Ford's *The Iron Horse*, and next month, at the Festival Hall, it will be Murnau's *Sunrise*.

I know of no other television producers in the world who come near to the scholarship and experience of Brownlow and Gill in this field, and in this series their knowledge shows through perpetually. Other documentary series on the origins of cinema have been attempted, but the makers found it necessary to trick out their efforts with jokes, skits in period costume, or a "celebrity" presenter. *Cinema Europe* has no on-screen presenter and the opening episode did not even contain any interviews or comments from witnesses. It consisted entirely of film clips with an expert commentary, delivered almost unnoticeably in non-luvvie style, thank goodness, by Kenneth Branagh.

That episode showed it was not the US but Europe which led the world in cinema between 1895 and the first world war.

It also showed, more vividly and convincingly than any of the other programmes on this early period, that in those first 20 years Europeans – especially the French – were experimenting with many of the techniques that are generally regarded as later innovations: colour, synchronised sound (using a gramophone in 1906), multiple exposure, big close-ups, fast cutting, and even, during the first world war, airborne footage of aerial combat, and, from the Italians, astonishingly early examples of the neo-realism that most of us associate with the period after the second world war.

Like all subsequent episodes, Episode 2, dealing with the first golden age of Scandinavian cinema, did have interviews, or excerpts from historic interviews such as one with Ingmar Bergman. It also included part of Garbo's first film and even a tiny clip of her modelling clothes for a department store before she went into the cinema.

Episode 3 took us on to the rise of German expressionism and the pre-eminence of German cinema, at least in artistic terms, between the wars; and Episode 4 showed the great strengths of the French industry in the same period. Once again we saw technically astonishing effects achieved by Gance and others.

Tomorrow's programme, the fifth and penultimate, tells the dispiriting story of how Britain failed to match the Americans on the business side of cinema and the Europeans on the creative side. It seems that if you go back to the earliest days – pre 1900 – British films were remarkably advanced and in great demand. But by 1914 that edge had disappeared and within a few years the industry was trailing along in the rear thanks to snobbery, timidity among investors, failure to back home strengths and the consequent loss of Chaplin, Hitchcock and others to foreign countries. To regular readers of the industry pages in this newspaper the catalogue will doubtless sound distressingly familiar.

But judged as a whole, *Cinema Europe: The Other Hollywood* is an enjoyable treasure house and an education.

Radio/**Martin Hoyle**

Bottomley's salad days

Her name is Bottomley. When young she had the "legs and looks" of a cover-girl. Today she sounds rueful, almost self-mocking, about the giddy but illusory influence she enjoyed so briefly.

Catch Bottomley in something of a scoop for tonight's *Famous for Fifteen Minutes* on Radio 4. The last of the series whose meetings with those who have fallen, or gracefully declined, from the public gaze, reaches a bittersweet conclusion with Bottomley, emphasising how golden lads and lasses come to dust.

Bottomley recalls being dazzled by the strange company she fell in with, "very druggy and marginal people" (we know, we know). She owns that she was "shy and frightened" and admits to being "part of a joint experiment". With astonishing candour she recalls that, "I did my best to memorise my lines but the script was soon out of the window... I didn't know what I was doing. They were sort of happenings." Television viewers can vouch for the vacuous bouts of self-advertisement she and her colleagues indulged in. "There was a certain innocence lost at that time," she concedes wistfully; and one warms to the young idealist Bottomley once was.

Since she vanished from the public eye there has been a spell with a gentleman farmer in Oswestry, then a move to California where she met the love of her life. "Busted for marijuana", he already had three children who more or less drove her away. Bottomley seems to have found a new maturity, no longer haunted by the fear of losing her beauty. The story of Susan Bottomley, former actress, gives a glimpse of a once fashionable sub culture as epitomised by Andy Warhol's "Factory".

I look forward to the next series of *Famous for Fifteen Minutes*. Perhaps it could start with a programme devoted to Paul Gambaccini whose voice is ubiquitous (as last week's outraged correspondents to *Feedback*, presented by my colleague Christopher Dunkley, testify). Besides presenting the odd *Kaleidoscope*, he plugs his Radio 3 record show on Radio 4, whose listeners can surely make up their own minds whether they want to hear Holst's St Paul's Suite or another Vivaldi season.

The affairs of Radio 3 have crowded out mention of Radio 2's *World of Faith* week. Surveys show a surprisingly high proportion of us still believe in something non-rational (Christ, Islam, the Lottery), though not in organised religion (except Saturday night's propitiation of *Mammon* on BBC1). Colin Morris's 26 one-minute programmes whizzing through sundry deities in alphabetical order, *A God a Minute*, was entertaining, even if it slightly cheated: Echo was only a nymph, a victim of the gods rather than a deity. Her unstoppable loquacity earned her the terrible punishment of never being able to say anything original again. The (Virginia) Bottomley of her day.

The dying Celtic hero who commanded that his head be cut off and buried in south-east England looking towards France so as to repel Gallic invasions would not presumably have welcomed the return of *Europhile* to Radio (that title doth protest too much). Tonight you can hear a strangely reassuring report from Germany on the new German army; reassuring because the overwhelming sentiment of young Germany is pacifist and anti-military service.

The programme seemed to think the word "conscript" means "volunteer" and, therefore, might take a lesson in English from the young Germans interviewed who proved awesome in their polyglot articulateness. But preferrably not from our prime minister whose "misinterpretated" (to the United Nations last week) marked out his government as authentically a party of education as it has been of choice, law, order and the family.

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ARTS

Andrew Clark reports from the small Irish town with the world class operas

Gemma Beragnoli and Mariana Pentcheva in Pacini's 'Saffo', the second Wexford opera to be recorded for international release

Wexford's festival comes of age

A subtle but significant change came over the opera festival in the Irish town of Wexford this month. Its international character eclipsed its long-cherished air of local improvisation.

In artistic quality, the festival has finally come of age. It no longer needs allowances for its limited resources and geographical isolation. For the first time in its 44 year history, Wexford staked its claim as a fully fledged professional event, to be ranked alongside better-funded and more accessible festivals.

To the relief of regular visitors, many of them nostalgic for the amateurish old ways, the festival's growing sophistication has not affected its basic character. Uncovering neglected operas and youthful talent remains its raison d'être.

The Theatre Royal, its unpretentious facade tucked down a narrow back street, is still quirkily intimate. And the more cosmopolitan tone has not spoiled the town's charm, with its seafood, salt air and Irish sense of humour.

But the Wexford festival knows it cannot stand still. Like all successful artistic enterprises, it must push ahead if it is to retain its vitality. Over the past decade the festival has upgraded front-of-house facilities and marketing. Now, goaded by its first artistic director from outside the Anglo-Irish world, it is investing heavily in artistic improvements. Judging by the past 10 days, the vision and ambition which inspired an opera-loving doctor, Tom Walsh, to found the festival in 1951 are still at work.

Musically, the 1995 festival set new standards, particularly for orchestra and chorus. The operas were well-balanced. In spite of the Theatre Royal's tiny stage, two of the three shows looked positively glamorous. Wexford's casting was as resourceful as ever, with at least two exciting new voices, and there was an expanded programme of informal day-time events.

Although the festival remains locally rooted through its board, funding and volunteer support, it has always looked overseas for a measure for its standards. After Walsh retired in 1966, the British opera house circuit became the recruiting ground for professional staff. Elaine Padmore, artistic director from 1982 to 1994, widened the net further, introducing artists from the US and continental Europe, and adding German and Slavonic composers to the staple diet of 19th-century Italian works.

When Padmore left, Wexford's reputation was at an all-time high. The challenge facing the board was to find a successor who could build on the festival's traditions while adding to its appeal. Although he had never been to Wexford, Luigi Ferrari was preferred over an impressive list of British candidates.

A high flier in Italian musical life, Ferrari, 44, made his name as artistic director of Bologna's Teatro Communale, before moving to the Rossini festival at Pesaro in 1992. Here was a man with a European outlook, senior managerial experience and an intimate knowledge of Wexford's speciality – the byways of Italian opera.

Ferrari made it clear that his priority was to improve artistic quality, and that this would cost money. Buoyed by a 30 per cent rise in the Irish Arts Council's grant, the board agreed to extend the rehearsal period and enlarge the orchestra pit. Ferrari engaged the Prague Chamber Choir as the nucleus of a beefed-up festival chorus, and there has been some useful cross-fertilisation with Pesaro, where he continues to work each summer.

In spite of local resistance to change, Ferrari wants to enlarge the Theatre Royal's stage, at a cost of up to I£1m. The board is also considering lengthening the festival by inaugurating a spring season or taking a production on tour. "It's a wonderful dilemma," says chief executive Jerome Hynes. "We know the Wexford magic cannot be endlessly repeated, but the only time to move forward is when you're on top. As soon as you lose momentum, audiences, sponsors and public funding bodies start to lose interest. We're only as good as our last festival."

The first commercial recording of a Wexford production – Rubinstein's *The Demon* from the 1994 festival – has just been released, to be followed by Pacini's *Saffo* from this year. Although recordings cannot give a true flavour of the Wexford experience, they represent an important step into the international market.

All this is a far cry from the festival's humble origins. In 1951 there was just one opera and four professional singers. The language coach was a local Franciscan friar. Until recently, teams of Wexford ladies would sew the costumes and the chorus was made up of amateurs, led by Walsh's sister Nellie.

Now 82, she remembers her late brother as "a tough disciplinarian – if he came down from hospital to listen to a rehearsal and found people talking, he would want to know what the discussion was about.

"He was careful who he let in and, if you turned the chance down, you weren't asked again. He wanted to instil a sense of artistic pride, to do it like he heard it on the radio, to be worthy of the singers we were bringing from outside."

The number of guest artists rose steadily, and Wexford became a launch-pad for important careers. Janet Baker and Graziella Sciutti sang at the festival before they became famous, and it was where Sergei Leiferkus made his western debut in 1982.

The young David Pountney staged a landmark production of Janáçek's *Katya Kabanova* in 1972 and Francesca Zambello had a smash hit with Tchaikovsky's *Cherevichki* in 1993. Wexford legends abound – chief among them a 1979 performance of Spontini's *La Vestale*, when singers slid helplessly over the steeply raked set because a cleaner had removed the floor's sticking-agent.

One Wexford habitué describes the old festival as "small and drunken. Performances started at 9pm, but the evening didn't really begin till midnight." A large amount of drinking still goes on – Guinness is a sponsor, and the town's 41 pubs resound to a "singing and swinging" competition – but today there is less partying and a more upmarket feel. The consensus among locals is that this is a small price to pay for improved standards. "Where else in Ireland can you hear music of this level? The festival has made Wexford a musical town," said one woman who, like many others, paid I£10 to see this year's dress rehearsals and then bought a I£45 ticket for the opera she liked best.

The attraction is to work with young artists who bring a fresh enthusiasm

Audiences from the UK and elsewhere count for a third of the box office and the festival pumps an estimated I£10m a year into the local economy. That has not stopped some commentators from adopting a "little Irish" approach to its success. One writer in this year's festival newspaper complains of "all those cross-channel voices. Should the Irish taxpayer really be subsidising the pleasures of outsiders? It would be quite awful if [the festival] were further anglicised."

The debate has spilled over into the artistic arena, with Irish singers accusing Wexford of not giving them a proper chance. Ferrari retorts that his job is to run an international festival - "not to solve the problems of musical education and employment in Ireland. A quality that is considered high locally is not so high when compared to an international standard."

Next year's programme will be Donizetti's *Parisina*, Meyerbeer's *L'Etoile du Nord* and Fibich's *Sarka*. The success of *Saffo* has encouraged Ferrari to highlight other early Romantic Italian composers, with Mercadante high on his list. He says the attraction of Wexford is the ability "to put on stage your dreams, to programme works which will never be done elsewhere, and to work with young artists who bring an enthusiasm they will lose in later years".

Neighbours spread the amateur word

Antony Thorncroft on a play taking the UK by storm

Dramatic revelations: playwright Debbie Isitt

Playwright Debbie Isitt, moving spirit behind the Snarling Beasties, has had a frantic week. Her latest play *Nasty Neighbours* opened in London – and in Birmingham, Manchester, Newcastle upon Tyne, the Isle of Wight, in fact in more than 100 theatres across the land.

For Isitt it has been a revelation. The play is being performed by amateur groups taking part in the third BT Biennial. Every two years BT spends £250,000 on commissioning a play (previous writers were John Godber and Peter Whelan) and then handing it over, after workshops with directors, to the nation's AmDram companies for what becomes on each occasion the biggest first night in history.

This week in the suburbs of Manchester, from Hyde to Cheadle Hulme, local amateur groups competing for first prize in the Greater Manchester Drama Festival presented *Nasty Neighbours*. In Camden Town there was a version by a blind and partially sighted drama group. In New Malden a youth theatre attempted the play; in Banbury a school.

At the Questors in Ealing, the most sophisticated amateur company in the UK – with a theatre that would send many professionals glassy-eyed – performances of *Nasty Neighbours* went, ambitiously, for slow-burning menace; over the river at the South London Theatre in Norwood it came across as a light comedy.

This week Isitt has seen productions that play it as farce, as melodrama, as *angst*. She is looking forward to a circus performance at Woodley, with the actors dressed as clowns. At every production Isitt has the difficult task of being diplomatic about her own offspring which inevitably, in some hands, turns into a social embarrassment.

Nasty Neighbours is basically a domestic drama about the topical issue of incompatible neighbours leavened with sinister undertones. But it has precipitated over a hundred flights of fancy from the amateur directors, from the brilliant to the banal. In at least one production two of the six strong cast have been dropped.

Isitt has not made it easy: there are more than 12 quick scene changes – a minefield for many stage managers and lighting designers – and the dialogue was kept deliberately mundane: a challenge for the more mundane amateur actors. There is also the opportunity for sex on stage, which has severely tested the imagination of both directors and casts. The experience of watching so many of her fanciful chickens coming home, battered, to roost has made Isitt determined to tour a professional version of *Nasty Neighbours* next year.

It will be an instructive experience. For the previously rigid barriers between the amateur and professional worlds of drama are being blurred. As the repertory companies disappear from cities, their place on the boards of the surviving theatres is being taken by the better amateur groups. In places as far apart as Rugby and Dumfries amateurs have replaced the reps as the local suppliers of theatre.

In the past AmDram, for all its church hall embarrassments, was the breeding ground for many top actors: Donald Sinden and Sir Ian McKellen are just two leading theatricals who are proud of their early amateur status. Today professional actors are happy to reverse the process, taking breathers at the Questors, or the Crescent in Birmingham, or the People's Theatre in Newcastle, all of which can give any surviving rep a run for their money.

And although the government freeze on local authority spending has forced cuts in grants – the People's Theatre has just had its funding reduced from £10,000 to £1,000 – the amateurs have benefited from the generosity of the football pool financed Foundation for Sport and the Arts, and they may also gain from the National Lottery.

This month alone the Arts Council – which traditionally snubbed AmDram – as distributors of the arts lottery fund, gave £60,000 to refurbish the theatre of the amateurs of Newmarket; £9,500 for new seating and a lighting rig for the Ruskin Players of Carshalton; and £31,000 for the Seaham Youth Theatre Group.

Since the great need of amateur groups (apart from talented new recruits) is better seating, lighting and backstage facilities, the lottery, with its concentration on capital projects, is on line to provide many happy endings.

The BT Biennial has played a part in lifting the status of amateur theatre. Originally only those serious companies, members of the Little Theatre Guild, were invited to take part.

This time there was an open-door policy: hence the record 100-plus productions. Many amateur actors are suspicious of new plays – they like to ape a West End success or a classic. Hence, the small casting of the Isitt play, for which she earned a £6,000 fee.

But those taking part are having a tremendous time. They might not extract all the subtlety from the piece, but they are launching into theatrical history the sinister Harold Peach, the chronically cross Helen Chapman, and the rest.

For a few days at least AmDram steps out from behind the curtains to present the most significant theatrical event in the land.

SPORT

Football

The BBC scores with old footage

Simon Kuper reviews the sudden flood of soccer programmes

West Auckland Working Men's Club went to Italy in 1908, spent a night on the steps of Milan cathedral because of a mix up over hotel plans, were mistaken for the mighty Woolwich Arsenal, yet still managed to win the Sir Thomas Lipton *World Cup Trophy – ancestor* of today's World Cup. On the way back home they left the trophy on a French railway platform, but it was found by a porter and sent on to West Auckland, where it still stands in the club.

The story was told on BBC2 in the first episode of *Kicking and Screaming*, a documentary series about football in Britain. The same channel is also showing *Football Fussball Voetbal*, a series about the post-war European game, and a couple of weeks ago it broadcast *Dreaming of Ajax*, a one-off documentary which accused Britain of failing in its training of youngsters and advised it to copy Ajax Amsterdam.

"For years they don't do anything on football, and then they commission two big football programmes at the same time," a BBC man concerned with *Football Fussball Voetbal* grumbled to me.

> If you are a gifted eight-year-old, Ajax is always watching

BBC sports people used to be seen – and to see themselves – as the thickies of the Beeb, capable only of shouting, "Well, I say!" for the edification of other thickies. But now that football has become respectable, television has realised that the game can be milked for more than just live matches.

For football offers archive material so beautiful it makes you want to cry and enough social history to fill several municipal museums. Episode one of *Kicking and Screaming* gave us George Best drifting through defences and Blackburn playing West Bromwich Albion in 1898. ("The oldest footage of a football match in the world," claimed the BBC, and that had a ring of truth to it.)

It also featured a sort of football game with no rules in the Orkneys involving all the men in town – this is what football must have been like when it was banned 700 years ago.

As for social history, Lord Hailsham recounted how his grandfather taught football to the lower orders, hoping to civilise them. For, as Hailsham said: "The Greeks invented sport, and it was always related to religion." One member of the lower orders, an old gaffer watching an amateur team in Lancashire, talked *about* how his father had joined the same team in the 1880s.

The oral history approach works because modern football is only 132 years old, and in family histories that is only a short while ago. Today's members of the West Auckland Working Men's Club gave what is probably only a slightly garbled account of the Italian trip, and 103-year-old Zilwood March, who played for Brighton in the Edwardian era, can talk from his own experience.

Money also raised its head – *though not in the old amateur* days. The late Cunliffe Gosling, a county-set character, "was the richest man to play football for England", said his former farmhand, still alive.

Then came working class professionals and the maximum wage system. Although this was clearly unjust, footballers from this era should be banned by a historical commission from likening it to slavery.

Episode four of *Kicking and Screaming* shows how we got from there to here. At the start of the 1960s the maximum wage was abolished and players suddenly became rich. Fulham's Bobby Keetch, for instance, became famous for his Savile Row suits and gold pocket watch. Football became so fashionable that even Raquel Welch was spotted at matches.

But British football seems to get worse with every decade. All Britons did was invent the game at a time when British, and particularly Lancastrian, business was strong enough to spread it around the world.

The programme about Ajax, presented by former England striker Gary Lineker, was a good example of Britain's new-found inferiority complex. Everything done in the Netherlands or Germany is great; the British are unsophisticated louts. The programme was about football training, but when Paul Gascoigne said we must learn from Europe, he sounded just like our economic and political thinkers. But, then, the Ajax system is undoubtedly much better than those found in Britain.

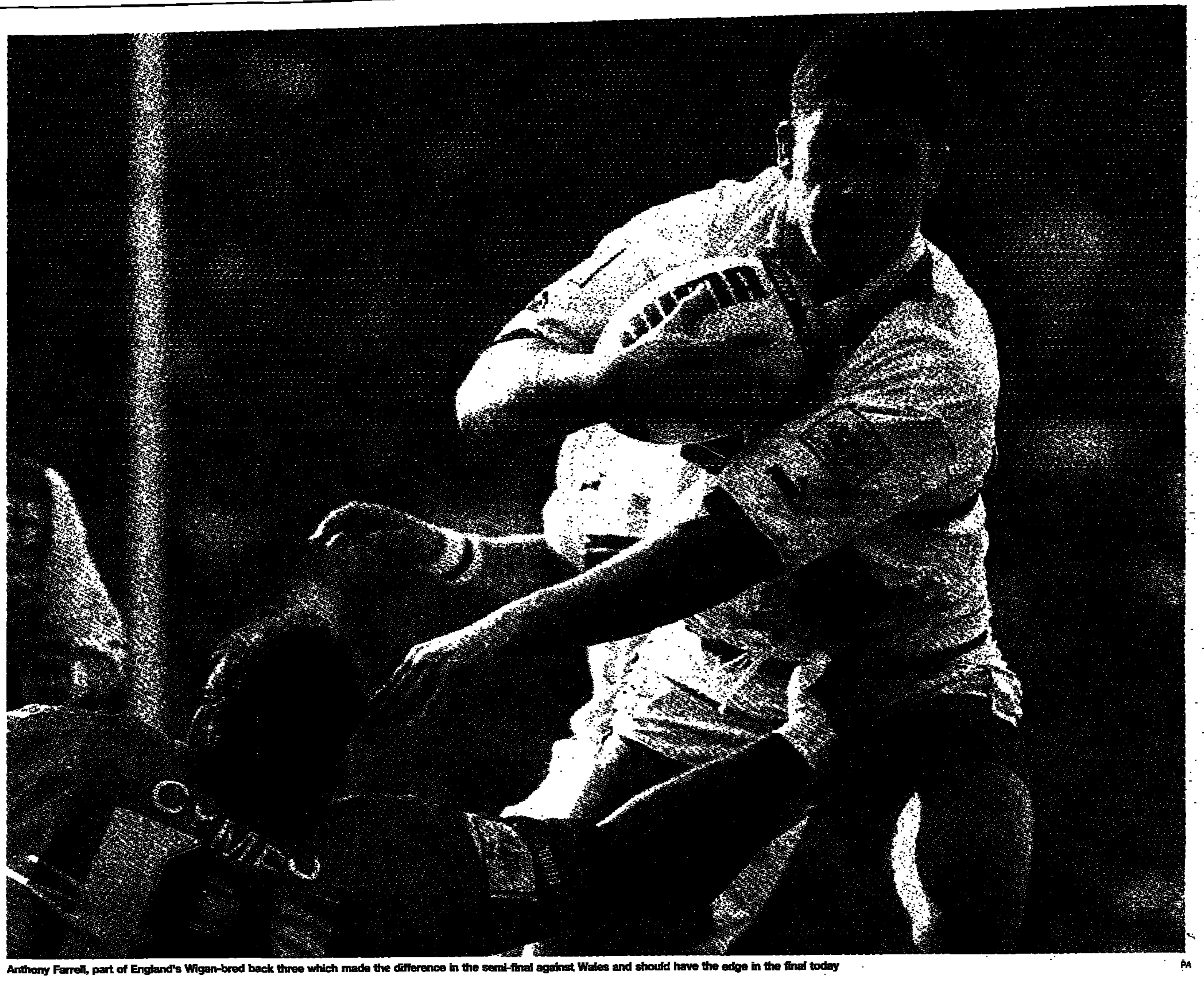
It is also a lot more frightening. If you are a gifted eight-year-old, Ajax is always watching. One youth coach asked a small boy why he was sick again. The boy said nothing. "It's because you're not wearing a coat to school," said the coach.

"If you're sick, you won't play well in the match and in training. But I have to assess you during the match and training." For Ajax boys receive regular report cards – a C for heading, a B for positional sense, that kind of thing – and at the end of each season the laggards are kicked out.

But when Dennis Bergkamp, now of Arsenal, told Lineker that Ajax helped him to stay at real school until he was 18 and that, because he was made to play in every position on the pitch he now understood how markers thought, you could appreciate why the system worked.

Football Fussball Voetbal focuses on the European Cup and European Championships. Watching footage of Best, Cruyff, Di Stefano and Beckenbauer at their best sounds a rare opportunity. This, the BBC admits, is "the first in-depth look at European football".

Whose fault is that?



Anthony Farrell, part of England's Wigan-bred back three which made the difference in the semi-final against Wales and should have the edge in the final today PA

Rugby

Colonialists v. colonials

Huw Richards assesses the rugby league world cup finalists – ancient rivals England and Australia

Perhaps rugby's competing codes have more in common than they think. Like its rugby union equivalent in June, the rugby league centenary world cup concludes today with the meeting of its two best sides, hosts versus ancient rivals resuming a battle that has no equal in their game.

There are limits to the comparison. Whether he turns up in an England shirt or none at all, Prince Edward is hardly Nelson Mandela. But that is hardly league's fault.

The competition's scene-stealers have gone. Just as the Pacific islanders gave the early stages their purpose and colour, so Wales and New Zealand contributed hugely to two magnificent semi-finals.

The Welsh were out-thought but never out-fought, while the Kiwis departed as the common factor in the competition's two great epics: their opening round meeting with Tonga, and the extraordinary semi-final against Australia. In that game, their last-quarter fight-back from a 14-point deficit left the cup favourites intensely grateful that similarities with the union competition did not extend to their going out – as did Australia's union team in South Africa – to a long-range, last-minute drop goal.

Fair-minded Australians, a commoner breed than many suppose, would not have complained had Matthew Ridge's drop goal attempt in the dying seconds of normal time broken the deadlock and carried New Zealand's compelling blend of guts and artistry to Wembley. But the spirit of the losing semi-finalists simply underlined the quality of the team which eventually subdued them.

Today's Wembley clash is not precisely a continuation of the rivalry begun only a few miles away at Park Royal nearly 87 years ago. Most meetings have matched Great Britain, rather than merely England, with the Australians. But today's meeting is undoubtedly a continuation in spirit.

And where union's definitive New Zealand-South Africa rivalry fed off the similarity between small, relatively unsophisticated, post-colonial frontier societies, league's battle, while lacking the class edge apparent when England meet Australia at cricket, still draws on the antithetical colonial relationship.

For the past 20 years, though, Australia has been league's imperial power and Sydney its great metropolitan centre – a dominance emphasised by the proliferation of Australian coaches in Britain and the recent outright purchase of London's league club by Australia's Brisbane Broncos.

> Australia have won every match that matters since the world cup final of 1972

There have been odd British victories, generally (and tellingly) when the game has been taken outside the code's heartlands – three times at Wembley, once in the Australian Rules stronghold of Melbourne. But Australia have won every match that matters since the World Cup final of 1972 when a 10-10 draw gave Britain the cup.

Those who seek omens will note that Australia's present coach, Bob Fulton, was at stand-off that day, while England manager Phil Lowe was in Great Britain's second row.

Anyone who doubts Australia's fighting spirit should remember their dominating extra-time display in the semi-final. Yet this team, lacking a significant number of the country's best players because of the Australian game's schism, induces respect where predecessors compelled awe.

Brad Fittler's creativity and leadership outweigh, without entirely effacing, what looked to be a calculated piece of play-acting in the semi-final. Half-back partner Geoff Toovey matches quality with industry, while second row Steve Menzies provides an uncanny echo of New Zealand union star Josh Kronfeld in combining brilliant support play, lethal pace and an unmatched eye for a gap, with youth and a predilection for scrum caps.

Their defence, in best Australian tradition, is an enveloping, suffocating blanket. But they have faded badly in the final quarter of both of their serious matches.

The most important decision for England coach Phil Larder has been taken out of his hands as scrum-half Shaun Edwards, who started the competition as captain, has failed to recover from an infected knee injury. His ill-luck demands sympathy but his replacement, Bobby Goulding, may worry Australia more.

Goulding, now with St Helens, emerges from Neil Hanson's *Mud, Blood and Glory* – a vivid account of a year with club champions Wigan – as league's answer to soccer star Paul Gascoigne: daft, wayward and accident-prone off the field, but with a gamin genius for the devastatingly unexpected on it. Surprise is priceless at this level and he is more likely to provide it.

But the key to England's hopes lies with their forwards, especially the quick hands, sharp mind and incisive running of Sheffield hooker Lee Jackson and, above all, the Wigan-bred back three of Phil Clarke, Denis Betts and the 20-year-old Anthony Farrell. They were the difference against Wales and should have the edge over their opposite numbers today, good as they are.

Similarities with union could extend to a tense, attritional match: the last world cup league final in 1992 – Australia's fourth win in a row and seventh in all – finished 8-4, with centre Steve Renouf's late try decisive. Chances of an open, free-flowing spectacle probably went out with New Zealand. But it will surely grip and compel, as the whole competition has done.

League goes back next week to the rather less attractive world it has been able to forget for a month, with an inconsequential, transitional domestic season resuming in Britain and the law courts providing the most significant action in Australia. But it returns in better heart than it could possibly have hoped.

Those who say that union going professional eliminates the need for league understand nothing. But the 13-a-side code's demonstration of its merits and enduring qualities is still timely. Its second hundred years could scarcely have started better.

Motor racing / **John Griffiths**

Sourpuss winner, sour grapes loser

The first time I went surfing through the sea of inanity which, I discovered only after I had acquired the dish, makes up the bulk of satellite broadcasting, I stumbled across the World Wrestling Federation.

At least half the programme consisted of interviews outside the ring with huge, uncouth men in face masks and leotards, who were seeking to describe in 100 different ways exactly the same thing: how each was going to mangle his next opponent or "woz robbed" by his last.

It was endless in its tedium and deeply depressing, because it was obviously scripted, presumably in the belief that out-of-ring "drama" was needed to keep potato glued to couch.

Michael Schumacher and Damon Hill are certainly not uncouth, and their garish overalls and helmets serve an essential purpose. But in their protracted off-track accusations and counter-accusations *they have become no* less tedious. It is time to stop.

If, as some of motor racing's band of conspiracy theorists so darkly hint, there is an element of orchestration in their posturings, then it is time to change the play as well as the plot.

Last weekend, in the Pacific grand prix at Aida, Schumacher and his Benetton-Renault delivered the final, crushing blow to Hill's hopes of preventing the 26-year-old German from winning his second successive Formula One grand prix world championship.

Schumacher's was a bravura drive, the latest of several this season which have stamped his superiority on the rest of the field. Hill finished in third place 50 seconds later – more than half a minute behind even his own team-mate David Coulthard.

The victory was due cause for celebration of a worthy champion's triumph. But, as has happened at almost every race this season, spraying champagne was quickly mixed with flying mud. Schumacher, increasingly showing head pre*fect tendencies, complained* privately to Hill about being forced off-line at the start and a near coming-together 11 laps later. Hill, for no good reason, made the row public at the post-race conference. Once again we had the spectacle of sourpuss winner and sour grapes loser: the two have traded the roles all season.

It might have been considered a bit of knock-about providing some extra titillation for the punters, had the recipe not been dished out so frequently already. Both have certainly done some aggressive driving – although it has usually been Hill who has finished with his nose cone out of joint. The trouble is that the skirmishes have been blown up out of all proportion by a sensation-hungry media. Under such pressures, for good or ill, sporting authorities often feel the need to react.

As a result, Formula One – and, by extension, motor racing as a whole – has just narrowly escaped what would have been the most nonsensical rule change about on-track behaviour *in many* a year. In response to Schumacher's and Hill's alternating claims that each had on occasion been "driven off the road" by the other's abrupt corner-cutting, the World Motor Sport Council, legislative body of the FIA which governs motor sport, considered introducing a rule which would have said that, if a following driver had managed to get the front of his car level with a rival's rear wheel on entering a corner, the leading driver should maintain a course which would not impede his pursuer.

It would, in short, have instructed the lead driver to concede the *corner. This is* equivalent to telling soldiers to surrender when they are winning, and, in the heat of a race, it would have been just as likely to be observed.

An informal code that a driver should not be unreasonably obstructed in a corner has existed for years. So has the ill-judged dive down the inside, with its usual consequence of locked wheels, tyre smoke and a mid-corner coming together. Both are an intrinsic part of motor racing and it has been left, usually *satisfactorily, to* on-site official observers to apportion any blame.

The new rule would have further discouraged actual racing – and that is something which, if it wishes to stop the decline in paying spectators, grand prix can no longer afford. It is television alone, with its ability to observe endless pit stops and events all around the track, which allows grand prix to remain comprehensible. With overtaking already so rare, ignorance and boredom is all too often the lot of the live spectator.

This week, after further consultations with the drivers, the *World Motor Sport Council* has decided that the rule is not to be. Instead it has declared that "drivers are free to drive as they wish, provided they do not deliberately endanger another driver or repeatedly obstruct him on the straight". It is a welcome move away from unconstructive, knee-jerk reaction, but we can only hope it survives tomorrow's Japanese grand prix.

With the world championship now decided, Schumacher and Hill are brandishing the *latest* ruling and trumpeting that they will be driving "with no holds barred". Just like the WWF wrestlers – and just as unedifying.

Michael Schumacher: stamped his superiority on the field

Chess No. 1098

Collective blindness missed 1...Qxd3! 2 cxd3 Bd4, which the Germans found at once.

هكذا من الأصل

TELEVISION

SATURDAY

BBC1

7.25 News. 7.30 SuperTed. 7.35 Willy Fog. 8.00 The Addams Family. 8.30 The New Adventures of Superman. 9.15 Live and Kicking.

12.12 Weather.
12.15 Grandstand. Introduced by Steve Rider from Wembley. Including at 12.20 Football Focus: A look forward to today's FA Premiership programme. 12.50 Racing from Ascot: The 12.55 United House Development Novices Hurdle. 1.05 News. 1.10 Motor Racing: Final practice for tomorrow's Japanese Grand Prix. 1.15 Rugby League: Preview. 1.25 Racing: The 1.30 Bagshot Handicap Steeplechase. 1.40 Snooker: Skoda Grand Prix. Semi-final action from the £330,000 tournament in Sunderland. 2.00 Racing: The 2.05 United House Construction Handicap Steeplechase. 2.15 Snooker. 2.25 Rugby League: Live coverage as England meet Australia in the World Cup final. 4.40 Final Score. Times may vary.
5.20 News.
5.30 Regional News and Sport.
5.35 Dad's Army. Arthur Lowe and Clive Dunn star.
6.05 Jim Davidson's Generation Game. Leslie Grantham joins in the fun for a comic version of *Alien*, as family pairings from Wheathampstead, Newbury, Glasgow and the Isle of Wight compete.
7.00 Noel's House Party. Another dose of fun from Crinkley Bottom, with regular features NTV, Grab-a-Grand and a celebrity Gotcha.
7.50 The National Lottery Live. Neil Sedaka sets the balls rolling for this week's draw.
8.05 Casualty. A police officer's life is put on the line when an operation at the docks ends in near-tragedy, and Josh and Liz face a race against time following a seriously ill baby's kidnap.
8.55 News and Sport; Weather.
9.14 National Lottery Update.
9.15 Film: Deadly Identity. Premiere. A private detective hired to trace a runaway husband finds himself drawn to the missing man's wife. Mystery thriller, starring Mark Harmon and Mimi Rogers (1990).
10.40 Match of the Day. Highlights of two of this afternoon's matches in the FA Premiership.
11.45 The Stand Up Show. Barry Cryer introduces talent old and new from the comedy circuit.
12.15 Film: A Bullet for the General. Violent Spaghetti Western. Klaus Kinski stars (1967).
2.10 Weather.

BBC2

8.20 Open University. 10.00 Asia Two: Chanakya (English subtitles). 10.40 Video Byte. 10.50 Network East. 11.50 Film 95 with Barry Norman.

12.20 Film: Odd Man Out. An IRA terrorist on the run from prison is injured during a hold-up and hunted by both police and rivals. James Mason stars (1947).
2.10 Film: Island in the Sun. Romantic melodrama charting the effects of an inter-racial love affair on an island community in the West Indies. James Mason and Joan Collins star (1957).
4.05 The Oprah Winfrey Show. Oprah and guests discuss race issues, meeting a man whose black father passed himself off as white.
4.45 TOTP 2. Chart sounds and hits of yesteryear.
5.30 Snooker: Skoda Grand Prix. Highlights from the opening session of this afternoon's second semi-final.
6.10 Pride and Prejudice. Darcy and Elizabeth's relationship grows more affectionate despite Miss Bingley's efforts to keep them apart - until bad news arrives from Longbourn.
7.05 News and Sport; Weather.
7.20 The Boss. Pat Collings has an incredibly stressful job. Being the headteacher of a large comprehensive school in Derby, she has to deal with abusive children, a dwindling budget and staff who are unable to cope with the heavy workload. Cameras follow Pat as she tries to control a career which is both rewarding and frustrating, and often means having to sacrifice her home life to constantly maintain and improve standards of education.
8.10 Performance: Henry IV. Shakespeare's two-part account of the king's eventful reign, combined into a single play starring Ronald Pickup, David Calder, Jonathan Firth, Rufus Sewell and Jane Horrocks.
11.05 Have I Got News for You. Paula Yates and Gordon Kennedy join Angus Deayton, Paul Merton and Ian Hislop for the satirical quiz.
11.35 Snooker: Skoda Grand Prix. The concluding action from today's best-of-17-frames second semi-final at the Crowtree Leisure Centre.
12.40 Film: Hell in the Pacific. An American GI comes face to face with a Japanese soldier on a deserted island during the second world war. Tense drama, starring Lee Marvin and Toshiro Mifune (1968).
2.20 Film: The Big Bus. Spoof disaster movie, with Joseph Bologna (1976).
3.45 Japanese Grand Prix. Live coverage.

LWT

6.00 GMTV. 9.25 Scratchy and Co 11.30 The Chart Show. 12.30 pm Du'aino's World.

1.00 ITN News; Weather.
1.05 London Today; Weather.
1.10 Champions' League Special. Preview of Wednesday's fourth round of matches in Europe's most lucrative club competition, including Blackburn Rovers v Legia Warsaw at Ewood Park, and Rangers v Juventus at Ibrox.
1.45 International Rugby. Italy v New Zealand. Alastair Hignell introduces action from Bologna as the improving hosts come up against the awesome All-Blacks, England's World Cup conquerors back in June.
3.45 Movies, Games and Videos. Review of Nicole Kidman in *To Die For*, plus new video releases *Highlander III*, with Christopher Lambert, and *Outbreak*, starring Dustin Hoffman.
4.15 Speakeasy Does the Business. Two teenagers spend time with Trevor McDonald to see if they're up to presenting the TV news.
4.45 ITN News and Results; Weather.
5.05 London Tonight and Sport; Weather.
5.20 Baywatch. Cody continues training with Stephanie, but admits his heart isn't really in it, while Mitch's mother goes missing during a visit to Venice.
6.15 Gladiators.
7.15 Blind Date. Cilla Black plays matchmaker to more hopefuls vying for the date of a lifetime; National Lottery Result.
8.15 Raise the Roof. Contestants compete for a traditional cottage in the Cotswolds.
8.45 ITN News and National Lottery Update; Weather.
8.59 London Weather.
9.00 Film: An Innocent Man. Tom Selleck is framed by two corrupt narcotics officials to cover up their own mistakes. Gritty thriller, co-starring F. Murray Abraham (1989).
11.05 The Big Fight - Live! Action from the Royal Albert Hall as Billy Schwer defends his Commonwealth lightweight title against South African Ditau Molefyane.
11.55 There's Only One Brian Moore. Vintage football action from the 1970s.
12.55 American Gladiators.
1.45 The Big E.; ITN News Headlines.
2.35 BPM.
3.30 Best of British Motorsport.
3.55 Film: Opening Night. Mystery thriller, with George Baker (1978).

CHANNEL4

6.05 Early Morning 10.00 Blitz! 11.00 Gazzetta Football Italia. 12.00 Sign On. 12.30 pm The Great Maratha (English subtitles).

12.55 The Late Late Show. Music and chat with Gay Byrne.
1.55 Boogie Doodle. Abstract short set to popular music.
2.00 Racing from Newmarket and Wetherby. Newmarket: The 2.10 Asco Appliances Zetland Stakes, 2.45 Asco Appliances Marshall Stakes, 3.20 Asco Appliances Quality Stakes, and the 3.55 Ladbroke Autumn Handicap. Wetherby: 2.25 Arthur Stephenson Novices' Handicap Chase, 3.00 Tote West Yorkshire Hurdle, 3.35 Charlie Hall Chase, and the 4.10 Wensleydale Juvenile Novices' Hurdle.
4.35 J'Accuse: England's Jane. Fay Weldon launches a verbal attack on the work of Jane Austen, arguing that her novels are nothing more than romantic tosh.
5.05 Brookside.; News.
6.30 Right to Reply. Viewers express their opinions on TV.
7.00 The People's Parliament. The chamber debates the place of racist humour in a multicultural society, asking if it encourages people to be prejudiced and abusive, or whether it's just harmless - albeit politically incorrect - fun. With Darcus Howe and Lesley Riddoch.
8.00 21st Century Jet. Behind-the-scenes examination of the design, construction and marketing of the Boeing 777.
9.00 The Camomile Lawn. Another chance to see the award-winning drama adapted from Mary Wesley's novel, about the effect of the second world war on five cousins. Paul Eddington, Felicity Kendal and Jennifer Ehle star.
10.05 Rory Bremner: Who Else? The new parliamentary term provides Rory Bremner with raw material for sharp political satire and impersonations.
10.45 Street-Porter's Men. With John Simpson and Eddie Izzard.
11.20 Tribe Time Introduction.
11.21 Blood Sports for All: The Punk Kes. Shocking portrait of the lengths to which people will go to purge their aggression.
11.30 Film: The Warriors. Action adventure, starring Michael Beck and James Remar (1979).
1.15 Dog Fight.
1.30 Eight-Tray Gangster.
2.30 Awayday.
2.45 Film: Cosh Boy. Crime drama, starring James Kenney (1953).
4.05 Passengers.

REGIONS

ITV REGIONS AS LONDON EXCEPT AT THE FOLLOWING TIMES:-

ANGLIA:
12.30 Movies, Games and Videos. 1.05 Anglia News. 3.45 Airwolf. 5.05 Anglia News and Sport 8.59 Anglia Weather. 11.55 Sweet November. (1968)

BORDER:
12.30 Movies, Games and Videos. 1.05 Border News. 3.45 Airwolf. 5.05 Border News. 5.10 Border Birthdays. 5.15 Border Sport Results. 11.55 Tropical Heat.

CENTRAL:
12.30 Heartland. 1.05 Central News 3.45 Thunder in Paradise. 5.05 Central News 5.10 The Central Match - Goals Extra. 8.59 Local Weather. 11.55 Tropical Heat.

CHANNEL:
12.30 Summer of Sailing. 1.04 Channel Weather. 1.05 Channel Diary. 3.45 Knight Rider. 5.05 Channel News. 5.10 Puffin's Pla(i)ce. 5.15 Cartoon Time. 11.55 Sweet November. (1968)

GRAMPIAN:
12.30 Telefios Na Seachdainn. 1.05 Grampian Headlines. 3.45 Tearlach Tollichte. 4.15 Movies, Games and Videos. 5.05 Grampian Headlines. 5.10 Grampian News Review. 5.15 Cartoon Time. 8.59 Grampian Weather. 11.55 Tropical Heat.

GRANADA:
12.30 The Munsters Today. 1.05 Granada News 3.45 World of Wonder. 5.05 Granada News 5.10 Granada Goals Extra. 11.55 Tropical Heat.

HTV:
12.30 No Naked Flames. 1.05 HTV News. 4.15 The Munsters Today. 5.05 HTV News and Sports Results 5.15 Cartoon Time. 8.59 HTV Weather. 11.55 Tropical Heat.

HTV Wales as HTV except:
12.30 The Electric Chair.

MERIDIAN:
12.30 Summer of Sailing. 1.05 Meridian News. 3.45 Knight Rider. 5.05 Meridian News. 11.55 Sweet November. (1968)

SCOTTISH:
12.30 Extra Time. 1.05 Scotland Today. 3.45 Airwolf. 5.05 Scotland Today 8.59 Scottish Weather. 11.05 Disorganised Crime. (1989)

TYNE TEES:
12.30 Movies, Games and Videos. 1.05 Tyne Tees News 3.45 Airwolf 5.05 Tyne Tees News. 5.10 Full Time. 11.50 The Hidden Room.

ULSTER:
12.30 Movies, Games and Videos. 1.05 UTV Live News 3.45 Airwolf. 5.05 UTV Live News 5.10 Saturday Sport. 8.58 UTV Live News 11.55 Tropical Heat.

WESTCOUNTRY:
12.30 Movies, Games and Videos. 1.05 Westcountry News. 3.45 Knight Rider. 5.05 Westcountry News 8.59 Westcountry Weather. 11.55 Tropical Heat.

YORKSHIRE:
12.30 Movies, Games and Videos. 1.05 Calendar News. 3.45 Airwolf. 5.05 Calendar News. 5.10 Scoreline. 11.50 The Hidden Room.

S4C Wales as Channel 4 except:-
7.05 Early Morning. 11.00 The Persuaders! 12.30 Exosquad 4.35 Without Walls: The Avengers. 6.30 Hollyoaks. 7.00 Newyddion Nos Sadwrn. 7.15 Noson Lawen. 8.15 Pengelli. 8.45 Hel Straeon. 9.20 Short Stories: Shopping for Mr Right. 9.50 Tales of Battered Britain.

SUNDAY

BBC1

7.30 Young Indiana Jones Chronicles. 8.15 Discovering Eve. 8.30 Breakfast with Frost. 9.30 First Light. 10.00 See Hear! 10.30 Suenos: World Spanish. 10.45 This Multimedia Business. 11.00 The 11th Hour.

12.00 CountryFile.
12.25 Weather for the Week Ahead; News.
12.30 On the Record. Political reports.
1.30 EastEnders.
2.55 Film: Columbo: Murder Under Glass. Crime drama, starring Peter Falk, Louis Jourdan and Shera Danese.
4.10 The Bookworm. Griff Rhys Jones presents a new series of the investigative programme, including the growing controversy surrounding Enid Blyton, and why crime writer Patricia D. Cornwell is so fascinated by psychopaths.
4.40 The Clothes Show. Jeff Banks and Caryn Franklin report from the 1995 British Fashion Awards.
5.20 The Great Antiques Hunt. Jilly Goolden invites two teams of enthusiastic amateurs to prove their knowledge of the antiques world in Worcester.
6.00 News.
6.20 Regional News.
6.25 Songs of Praise. Pam Rhodes joins the congregation of St Philip's Cathedral, Birmingham, in a celebration of gospel music.
7.00 Last of the Summer Wine. Comedy, starring Peter Sallis, Brian Wilde and Bill Owen.
7.30 The Showstoppers. Gary Wilmot introduces highlights from Broadway and West End musicals, with the help of Tom Conti and Barbara Dickson, and the BBC Concert Orchestra.
8.20 Children in Need. Noel Edmonds launches Smell-O-Vision, with the aid of Jim Davidson.
8.30 Keeping Up Appearances. Social-climber Hyacinth gets another of her flamboyant whims and decides she and Richard need a posh new car.
9.00 Pride and Prejudice. Elizabeth sees Wickham's true colours following his elopement, and Bingley proposes to Jane - an offer she readily accepts.
9.55 News and Weather.
10.10 In Search of Happiness. Angus Deayton meets an Englishman who found peace on a deserted island off the Australian coast.
10.50 Other Worlds. A Buddhist charity whose workers collect the unclaimed dead of Bangkok.
11.40 Film: Planet of the Apes. Classic SF (1968).
1.30 Weather.

BBC2

6.00 Miniature Worlds. 6.10 First Tuesday in November. 7.00 Playdays. 7.20 The Animals of Farthing Wood. 7.45 Jackanory. 8.00 Japanese Grand Prix. 9.55 Travel Bug. 10.20 Grange Hill. 10.50 The Little Vampire. 11.15 Growing Up Wild. 11.40 Star Trek. 12.30 pm The Sunday Show. 1.15 The O Zone.

1.30 Around Westminster. Roundup of the week's political news.
2.00 Snooker: Skoda Grand Prix. Live coverage of the opening session of the final, played over 17 frames at Crowtree Leisure Centre. Presented by David Vine.
5.10 Rugby Special. Orrell v Wasps. Highlights of yesterday's First Division match at Edge Hall Road. Plus, action from Cardiff v Fiji at Bridgend and October's Try of the Month competition.
6.10 The Trials of Life. The extraordinary feats of navigation undertaken in the natural world, including the epic 800-mile journey albatrosses make to eat and breed, and the desert treks undertaken by a tiny ant.
7.00 On the Road Again. Foreign correspondent Simon Dring follows the Sixties overland hippy trail to India, driving through Europe en route to Istanbul and meeting a variety of travellers along the way.
7.30 Timewatch. Insight into the domestic revolution, which developed from the hard life of skivvies at the start of the century to come full circle in the present day, as independent career women take on home-helps.
8.20 The Money Programme. Jane Corbin interviews management guru Tom Peters, asking whether the increasing attention paid to organisational theory really does any good.
9.00 Cinema Europe: The Other Hollywood. The story of how the British film industry failed to fulfil its early potential, with poor funding giving Germany and America the chance to establish an unassailable lead by the mid-1920s.
10.00 Japanese Grand Prix. Highlights of this morning's race at Suzuka, the penultimate round of the 1995 Drivers and Constructors World Championship.
10.40 Snooker: Skoda Grand Prix. David Vine introduces green-baize action from the last eight frames of today's £70,000 final in Sunderland.
12.10 Film: The Bat Whispers. A police detective embarks on a game of cat and mouse with a thief known only as The Bat. Mystery, starring Chester Morris (1930).
1.40 Close.
2.00 The Learning Zone.

LWT

6.00 GMTV. 8.00 Disney Adventures. 9.25 Disney Parade. 10.15 Link. 10.30 This Sunday. 11.00 Morning Worship. 12.00 This Sunday. 12.30 pm Crosstalk; London Weather.

1.00 ITN News; Weather.
1.10 Jonathan Dimbleby. Hard-hitting live political debates.
2.00 Opening Shot. Gerald Fox visits a London convention to find out about the appeal of the French cartoon character Asterix the Gaul.
2.30 The Sunday Match. Luton Town v Charlton Athletic. Jim Rosenthal presents live coverage from Kenilworth Road.
5.10 Rags to Riches. Behind the scenes of the fashion world, focusing on two Lancashire students preparing their final collections for assessment, and a magazine photo shoot.
5.40 The London Programme. A shocking exposé of the scandalous goings-on behind the doors of one particular children's home.
6.10 London Tonight; Weather.
6.30 ITN News; Weather.
6.40 Schofield's Quest. Phillip explores a shipwreck off the Needles, and unearths the world's first motion picture.
7.30 Heartbeat. Nick investigates a fatal car crash, and Greengrass surprises an intruder whose midnight maraudings and flour-bag mask have made him the terror of Aldensfield.
8.30 You've Been Framed! Rib-tickling selection of Hallowe'en home-video howlers.
9.00 London's Burning. A grieving Nick struggles to come to terms with Ariadne's tragic death, while a raging timber-yard fire has serious consequences for Billy.
10.00 Hale and Pace. Gareth and Norman fire off another comic broadside.
10.30 ITN News; Weather.
10.44 London Weather.
10.45 The South Bank Show. Actress Dame Judi Dench talks to Melvyn Bragg about a distinguished 35-year career.
11.45 London Stage '95. Profile of Britain's leading Asian theatre company Tara Arts as they stage Cyrano, their first co-production with the Royal National Theatre; ITN News Headlines.
12.20 Sledgehammer.
12.50 Hollywood Report.
1.20 Tenball.; ITN News Headlines.
2.10 Cue the Music.
3.10 Film: Cool Hand Luke. Chain-gang drama, with Paul Newman (1967).
5.15 Nite Bites.

CHANNEL4

6.05 Blitz! 7.00 Early Morning. 8.35 Where on Earth is Carmen San Diego? 8.55 Exosquad. 9.25 Running the Halls. 9.50 The Pink Panther Show. 10.00 Aaahh!!! Real Monsters! 10.15 Saved by the Bell: The New Class. 10.40 Wise Up. 11.15 Rawhide. 12.15 pm Mission Impossible.

1.15 Football Italia. James Richardson introduces coverage of the big game from Serie A.
3.30 Film: The Tall Target. A disgraced ex-policeman saves Abraham Lincoln from assassination as he takes the train to Washington for his inauguration. Period thriller, with Dick Powell (1951); News Summary.
5.00 Hollyoaks. Omnibus edition of Phil Redmond's new teenage drama. A party gives Kurt Benson the chance to salvage his dreams of romance with the beautiful Natasha.
6.00 The Persuaders! An heiress's long-lost brother reappears to snatch her inheritance - can Brett and Danny discover his true identity?
7.00 Equinox: Electric Skies. Report on research into lightning being conducted in New Mexico and Florida. The programme features footage of electrical storms, new theories on the rare ball and ribbon forms, and people who have been struck by the more conventional forked variety.
8.00 Hidden Hands. Experts including historian Arthur Schlesinger Jnr, painter Patrick Heron and former CIA chief William Colby investigate why the American intelligence agency gave secret funds and support to abstract expressionist artists including Jackson Pollock, Franz Kline and Mark Rothko throughout the 1950s.
9.00 Witness: The Choirmaster. The victims of a Canadian cathedral choirmaster who systematically abused his charges for 16 years describe how they and their parents finally managed to obtain justice following the suicide of two choristers - despite the Church and legal authorities' reluctance to investigate, and their own fear of speaking out.
10.00 Film: After Dark, My Sweet. An unbalanced ex-boxer falls in with an alcoholic widow, and is persuaded to help an audacious kidnap plot. Atmospheric thriller, starring Jason Patric and Rachel Ward (1990).
12.05 Film: Hanussen. Premiere. A first world war colonel is shot in the head, and develops clairvoyant powers which make him a threat to the Nazis in later years. Klaus Maria Brandauer stars (1988).(English subtitles).
2.10 Close.

REGIONS

ITV REGIONS AS LONDON EXCEPT AT THE FOLLOWING TIMES:-

ANGLIA:
12.30 Dilemmas. 12.55 Anglia News. 2.00 The Shape of Things. 2.30 Kick-Off! 5.20 The Road Show. 5.50 Gambit. 6.20 Anglia News on Sunday 10.44 Anglia Weather. 11.45 Dilemmas.

BORDER:
12.25 An Invitation to Remember. 12.55 Border News. 2.00 Scotsport. 3.15 Thunder in Paradise. 4.10 Coronation Street. 5.00 Murder, She Wrote. 5.55 Edge of Empire. 6.25 Border News. 11.45 Bodies of Evidence.

CENTRAL:
12.30 Central Newsweek. 12.55 Central News 2.00 It's Your Shout. 2.30 The Central Match - Live! 5.00 Magnum. 5.55 Bullseye. 6.25 Central News 10.44 Local Weather. 11.45 Laedia. (1994)

CHANNEL:
12.30 Reflections. 12.33 Telejornal. 12.40 Rendez-Vous Dimanche. 2.00 The Village. 2.30 The Meridian Match - Live! 4.50 Return from the River Kwai. (1988) 6.25 Channel News. 11.45 The Pier.

GRAMPIAN:
11.00 Sunday Service. 11.45 Eikon. 12.30 Gardeners' Diary. 12.55 Grampian Headlines. 2.00 Scotsport. 3.15 The Business Game. 3.45 Carry on Constable. (1959) 5.20 Appeal. 5.25 Walking Back to Happiness. 5.55 One Life to Live. 6.25 Grampian Headlines. 6.39 Grampian Weather. 10.44 Grampian Weather. 11.45 Time Trax.

GRANADA:
12.30 Faith in the Child. 12.55 Granada News 2.00 Highway to Heaven. 2.55 The Granada Match - Live! 5.20 Bugs Bunny. 5.30 Coronation Street. 6.25 Granada News 11.45 Festival: The Big Laugh In.

HTV:
12.25 Ballot Box. 12.55 HTV News. 2.00 The Ultimate Challenge. 3.00 West Match Plus. 4.00 Pork Chop Hill. (1959) 5.55 Famous Five. 6.25 HTV News. 10.44 HTV Weather. 11.45 Prisoner: Cell Block H.

MERIDIAN:
12.30 Seven Days. 12.50 Meridian News. 2.00 The Village. 2.30 The Meridian Match - Live! 4.50 Return from the River Kwai. (1988) 6.25 Meridian News. 11.45 The Pier.

SCOTTISH:
10.15 Skoosh. 10.40 Eikon. 10.55 Link. 11.10 Scotland Today. 11.15 This Sunday. 11.45 Sunday Service. 12.30 This Sunday. 2.00 Scotsport. 3.15 The Seventh Dawn. (1964) 5.25 Knight Rider. 6.20 Appeal. 6.25 Scotland Today 10.44 Scottish Weather. 10.45 Scottish Voices. 11.45 The South Bank Show.

TYNE TEES:
12.25 Newsweek. 12.55 Tyne Tees News. 2.00 Highway to Heaven. 2.55 The Thanksgiving Promise. (TVM 1986) 4.35 Thunder in Paradise. 5.30 Famous Five. 6.00 Tyne Tees Weekend. 11.45 Quiz Night.

WESTCOUNTRY:
12.30 Westcountry Update. 12.55 Westcountry News. 2.00 Fax's Fair. 2.30 Westcountry Weekend Match. 3.00 Never Cry Wolf. (1983) 5.00 The Shape of Things. 5.30 Highway to Heaven. 6.25 Westcountry News 10.44 Westcountry Weather. 11.45 Prisoner: Cell Block H.

YORKSHIRE:
12.25 The Real Ghostbusters. 12.50 Calendar News. 2.00 Highway to Heaven. 2.55 The Thanksgiving Promise. (TVM 1986) 4.35 Thunder in Paradise. 5.30 The Mad Show. 6.00 Calendar News and Weather 10.44 Local Weather. 11.45 Quiz Night.

RADIO

SATURDAY

BBC RADIO 2
6.00 Mo Dutta. 8.05 Brian Matthew. 10.00 Judi Spiers. 12.00 Hayes on Saturday. 1.30 The News Huddlines. 2.00 Martin Kelner on Saturday. 3.30 How Does Your Garden Grow? 4.00 Nick Barraclough. 5.00 Ben E. King. 6.00 Chet Atkins: Certified Guitar Player. 7.00 Comedy Classics. 7.30 Sarah Brightman: By Special Invitation. 9.30 David Jacobs. 10.00 The Arts Programme. 12.05 Sue McGarry. 4.00 Mo Dutta.

BBC RADIO 3
6.55 Weather. 7.00 Record Review. J.C. Bach, Janacek, William Lawes, Hindemith, Tomkins, Tchaikovsky. 9.00 Building a Library. Bartok's Concerto for Orchestra, by Jeremy J. Beadle. 10.15 Record Release. Berlioz, Butterworth, Ravel. 11.15 Reissues. Jonathan Swain on mid-price recordings. 12.00 Private Passions. 1.00 The Indian Spice Trail. 1.25 Vintage Years. 3.25 Woodland Twilight. 3.50 Live from Covent Garden: Gotterdammerung. The climax of Wagner's Ring Cycle. Including at 7.40 Music Matters. 10.00 Collective and Conscious. Creativity and individual genius. 10.30 Impressions. 12.30 Sinatra's Jazz. 1.00 Close.

BBC RADIO 4
6.00 News.
6.10 Farming Today.
6.50 Prayer for the Day.
7.00 Today.
9.00 News.
9.05 Sport on 4.
9.30 Breakaway.
10.00 Loose Ends.
11.00 The Week in Westminster.
11.30 Europhile.
12.00 Money Box. From Edinburgh.
12.25 The News Quiz.
1.00 News.
1.10 Any Questions?
2.00 Any Answers? 0171 580 4444. With Jonathan Dimbleby.
2.30 Saturday Playhouse: The Book of Shadows. Scott Cherry's tale of the supernatural.
4.00 That's History.
4.30 Science Now.
5.00 File on 4.
5.40 Personal Obsessions.
6.00 Six O'Clock News.
6.25 Week Ending.
6.50 Offspring.
7.20 Kaleidoscope Longings.
7.50 Saturday Night Theatre: Phone Me in the Evening. By Peter Lloyd.
9.05 Music in Mind.
9.50 Ten to Ten.
10.00 News.
10.15 The Heritage Quiz.
10.45 Famous for 15 Minutes.
11.00 Comparing Notes with Richard Baker.
11.30 Any Bloke.
12.00 News.
12.30 The Late Story.
1.00 As World Service.

BBC RADIO 5 LIVE
6.05 Dirty Tackle.
6.30 The Breakfast Programme.
9.05 Weekend with Kershaw and Whittaker.
11.05 Top Gear.
11.35 Crime Desk.
12.00 Midday Edition.
12.15 Sportscall.
1.05 Sport on Five.
6.05 Six-O-Six.
7.30 News and Sport.
7.35 Straight Up.
8.00 News and Sport.
8.05 Clear the Air.
8.30 News and Sport.
8.40 Dallyn on Saturday.
10.05 The Treatment.
11.00 Night Extra.
12.05 After Hours.
2.00 Up All Night.
4.00 Japanese Grand Prix.

WORLD SERVICE
BBC World Service can be received in England on medium wave 648 kHz (463m) and in western Europe on long wave 198 kHz (1515m) at the following times BST:
6.00 Newsday. 6.30 Fourth Estate. 6.45 On Screen. 7.00 World News. 7.15 From the Weeklies. 7.30 People and Politics. 8.00 World News. 8.10 Words of Faith. 8.15 A Jolly Good Show. 9.00 World News and Business Report. 9.15 Eureka! 9.45 Sports Roundup. 10.00 Newsdesk. 10.30 BBC English. 10.45 Letter from America. 11.00 Newsdesk. 11.30 Meridian. 12.00 World News and Business Review. 12.15 Britain Today. 12.30 Counterpoint. 1.00 Newshour. 2.00 World News. 2.05 Sportsworld. 3.00 World News. 3.05 Sportsworld continued. 4.00 World News. 4.15 Sportsworld continued. 4.30 (MW) News in German. 4.30 Sportsworld. 5.00 News Summary. 5.01 Weekend. 5.30 Powerful Substances. 5.45 Sports Roundup. 6.00 Newsdesk. 6.30 Science in Action. 7.00 World News. 7.05 From Our Own Correspondent. 7.25 Book Choice. 7.30 Counterpoint. 8.00 Newshour. 9.00 World News. 9.05 World Business Review. 9.15 Britain Today. 9.30 Meridian. 10.00 Newsdesk. 10.30 Play of the Week: The Winslow Boy. 11.30 Jazz Now and Then. 11.45 Seven Days. 12.00 Newsdesk. 12.30 The Learning World. 12.45 Britain Today. 1.00 World News. 1.10 Press Review. 1.15 Soundbyte. 1.30 From Our Own Correspondent. 1.50 Write On. 2.00 Newsday. 2.30 The Ed Stewart Show. 3.00 World News. 3.15 Sports Roundup. 3.30 Fourth Estate. 3.45 Science View. 3.50 Waveguide. 4.00 Newsdesk. 4.30 Short Story. 4.45 Local Heroes.

SUNDAY

BBC RADIO 2
7.00 Don Maclean. 9.05 Bob Holness. 10.30 Hayes on Sunday. 12.00 Desmond Carrington. 2.00 Benny Green. 3.00 David Jacobs. 4.00 Tea at the Berystede. 4.30 Sing Something Simple. 5.00 Charlie Chester. 7.00 Tom Conti. 8.30 Sunday Half Hour. 9.00 Alan Keith. 10.00 Magic Moments. 12.05 Steve Madden. 3.00 Alex Lester.

BBC RADIO 3
6.35 Open University: Access to Maths. 6.55 Weather. 7.00 Sacred and Profane. 8.55 Choice of Three. 9.00 Brian Kay's Sunday Morning. 12.15 Music Matters. 1.00 Fairest Isle Songbook. 1.15 Fairest Isle. 1.45 The Berlin Philharmonic Play Mahler. 3.35 Spirit of the Age. 4.35 Edinburgh International Festival 1995. 5.45 Sunday Feature: The Posthumous Life of John Keats. Changing images of the Romantic poet. 6.30 Yuri Bashmet. Bach and Brahms. 7.30 Choral Foundations. Adrian Jack explores Lincoln Cathedral. 9.00 Drama Now: David. Tina Pepler's drama. 10.30 Record Review. Bartok's Concerto for Orchestra, by Jeremy J. Beadle. 11.15 Coda.

BBC RADIO 4
6.00 News.
6.10 Something Understood.
7.00 News.
7.10 Sunday Papers.
7.15 On Your Farm.
7.40 Sunday. Religious news.
8.50 The Week's Good Cause.
9.00 News.
9.10 Sunday Papers.
9.15 Letter from America.
9.30 Morning Service.
10.15 The Archers.
11.15 Mediumwave.
11.45 Four Corners.
12.15 Desert Island Discs.
1.00 The World This Weekend.
2.00 Gardeners' Question Time.
2.30 Classic Serial.
3.30 Pick of the Week.
4.15 Analysis.
5.00 Salmon and Silicon Glen.
5.30 Poetry Please!
6.00 Six O'Clock News.
6.15 Feedback.
6.30 In Business.
7.00 Sunset Suite.
8.00 (FM) The Natural History Programme.
8.00 (LW) Suenos.
8.30 (FM) That's History.
8.45 (LW) The French Experience.
9.00 (FM) UK Plc.
9.15 (LW) Short Stories in German.
9.30 (FM) The Square on the Pythagoras.
9.30 (LW) Get by in Portugal.
10.00 News.
10.15 All in the Mind.
10.45 A Week in the Life.
11.15 In Committee.
11.45 Seeds of Faith.
12.00 News.

BBC RADIO 5 LIVE
6.05 Straight Up.
6.30 The Breakfast Programme.
9.05 Sunday with Mair.
11.35 Special Assignment.
12.00 Midday Edition.
12.15 The Big Byte.
1.05 Hold the Front Page.
1.35 You Cannot Be Serious!
2.30 Gary Lineker's Sunday Sport.
6.05 Jim and the Doc.
7.00 News Extra.
7.35 The Acid Test.
8.05 Legal Leaps.
8.35 Word Up!
9.05 Dallyn Worldwide.
10.05 The PR Game.
10.35 Crime Desk.
11.00 Night Extra.
12.05 Nightcall.
2.05 Up All Night.

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CHESS

In the early years of international chess, 150 years ago, masters used to give material odds to amateurs. It could be the f7 pawn, when the expert attacked down the open "f" file, the b1 knight, or even a rook or queen.

The trouble was that once the amateur started losing, bigger odds were demanded. Without clocks, games were slow and pros found it hard to make a living. Odds chess was discarded in favour of simultaneous displays, where masters visited chess clubs and took on between 20 and 40 opponents at once on level terms.

Clocks also hastened the decline of material odds, for the amateur who wanted to play on equal terms could be offered a time handicap.

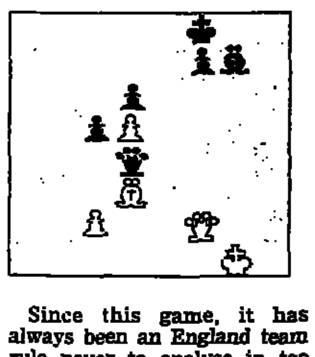
But in this game, the winner gave odds of the a1 rook. It was conventional with these odds for White's a2 pawn to start at a3, but Henry Buckle waived this right and was vindicated by a winning knight tour at moves 10-13.

(Buckle, White; Brown, Black; London 1849; remove White's a1 rook).

1 e4 e5 2 Nf3 Nf6 3 d4 exd4 4 e5 Ne4 5 Bd3 Nc5 6 0-0 Nxd3 7 Qxd3 d6 8 Re1 Be7 9 exd6 Qxd6 10 Na3 c5 11 Nb5 Qb6 12 Bf4 Na6 13 Nd6+ Kf8 14 Ng5 Qd8 15 Qc4 Be6 16 Rxe6 Bxd6 17 Nxf7 Qd7 18 Bxd6+ Kg8 19 Nh6+ gxh6 20 Rg6 mate.

Chess No. 1098

From E. Joppen v R. Wade, Amsterdam 1954. This olympiad game was adjourned, and the English team analysed together for several hours without finding a win. Wade went 1...c4 and, despite two pawns down, his German opponent held out for a bishops of opposite colours draw.



Since this game, it has always been an England team rule never to analyse in too large a group. Why?

Solution, Page XX

Leonard Barden

BRIDGE

Today's hand comes from rubber bridge. See what you can learn from Earning The Bonus:

	N	
	♠ A 3 ♥ A Q 2 ♦ Q 6 2 ♣ A 7 5 4 2	
W		E
♠ 9 7 2 ♥ 10 8 7 5 ♦ K 10 7 5 ♣ J 9		♠ 5 ♥ K J 9 4 ♦ 9 8 4 3 ♣ Q 10 8 3
	S	
	♠ K Q J 10 8 6 4 ♥ 6 3 ♦ A J ♣ K 6	

At game-all, North dealt and opened the bidding with one no-trump, showing 16 to 18 points. South replied at once with Gerber four clubs, asking for aces. North's response of four no-trumps promised three aces. South re-bid five clubs, asking for kings. Disappointed by North's response of five diamonds, which showed no kings, South ended the auction with six spades.

West decided to lead the five of hearts, covered by dummy's queen, and the king won. East led back the knave, a crucial return, which removed an important entry. Realising that, to establish an extra trick in clubs, he needed to find clubs breaking 3-3 and the spades 2-2, he decided that the diamond finesse was better odds. He drew trumps, crossed to the club ace, led a diamond and finessed his knave. West had the king – one down.

South made two errors, one in bidding, one in play. When North is found to hold no king, he must almost certainly hold two queens. If one is the club, 12 tricks are on ice; if he holds both red queens, then North should play the hand to protect his heart queen. South should bid six no-trumps, which is undefeatable.

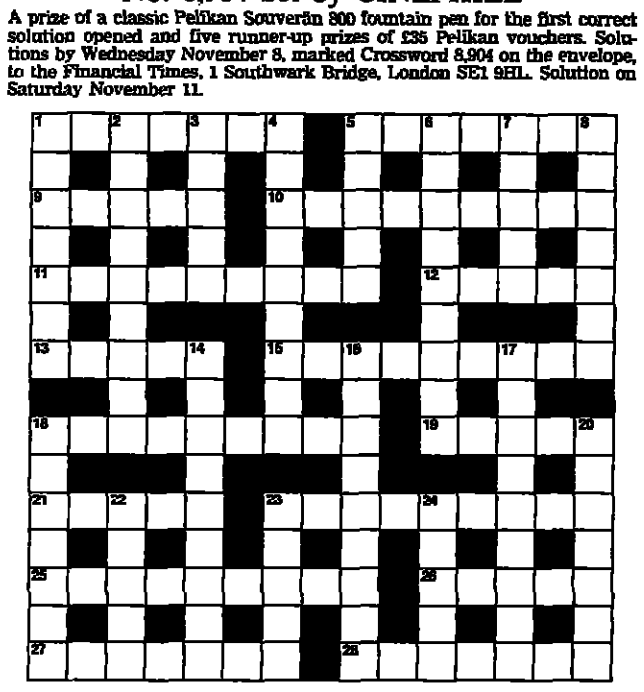
The mistake in card play was to play dummy's heart queen at trick one. He must play the two, and East wins. Taking the diamond return with his ace, he cashes king and ace of clubs; ruffs a club high; crosses to the spade ace and ruffs one more club high; then draws the trumps and claims his slam.

E.P.C. Cotter

CROSSWORD

No. 8,904 Set by CINEPHILE

A prize of a classic Pelikan Souverän 800 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers. Solutions by Wednesday November 8, marked Crossword 8,904 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Saturday November 11.



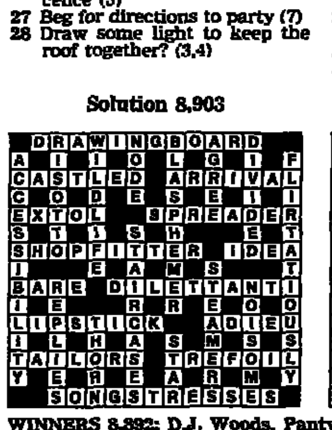
Name...

Address...

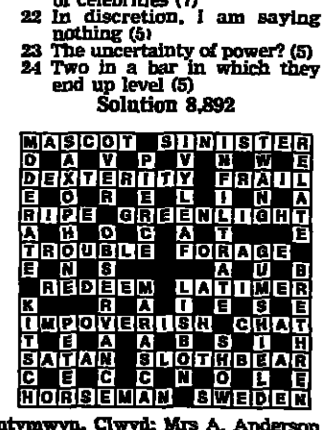
ACROSS
1 Beg for direction in a tree (7)
5 Beg for knowledge of devil? (7)
9 The porter must be resolute (5)
10 Expert on bitter herbs for cattle (9)
11 Avoids fur, possibly, as being frowned on (9)
12 Seat with no top goes to rot (5)
13 Enduring character of what turns to ice (5)
15 Alternative numbers continue to work on critic of power (4,5)
18 Half a cheer relating to a small interval (9)
19, 21 It's out east that the conspirator's exposed (5,5)
23 Endless fruit drink at a sensational performance (9)
25 Figure of confusion at the recreation ground (9)
26 Beg to state guilt or innocence (5)
27 Beg for directions to party (7)
28 Draw some light to keep the roof together? (3,4)

DOWN
1 Workers get round the underworld, coming back too (7)
2 Blizzard from the south: time to make a direct assault (9)
3 More likely one of the crowd (5)
4 Spirit stove, top part, for eatin' greedily, say (9)
5 Gather from the underworld, no less (5)
6 Act to amuse oneself alone (4,1,4)
7 Nothing's empty like an egg (5)
8 Poor Pete's at home to a man called Jacob (7)
14 Swallowing tasty concoction, summon the polis (4,5)
16 Gather again – don't forget (9)
17 Talking heads? (4-1-4)
18 Firm intervenes in sudden increase of destructive force (7)
20 Smart do involved the world of celebrities (7)
22 In discretion, I am saying nothing (5)
23 The uncertainty of power? (5)
24 Two in a bar in which they end up level (5)

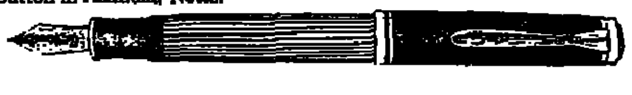
Solution 8,903



Solution 8,892



WINNERS 8,892: D.J. Woods, Pantymwyn, Clwyd; Mrs A. Anderson, Mintlaw, Aberdeen; J.A. Cooper, Voorschoten, Netherlands; Mrs M.E. Halliday, Dumfries; J.S. Heaton, Ilkley, W. Yorks; M.N. Henstock, Sutton-in-Ashfield, Notts.



James Morgan

There's nowt so queer as Bulgaria

Though an also-ran in the race to achieve a market economy, the country has mastered the techniques of popular journalism

Years ago, *The Economist* magazine described Bulgaria as the most boring country in Europe. This view contradicted my own experience at that time. There was the young woman who told how she had learned karate, which was normally illegal, by attending the Sofia School for Stuntmen.

This had saved her from a fate worse than death on the Sofia-Plovdiv motorway. She also argued that the Soviet Union was quite right to hesitate in giving her a visa, for which she had recently applied, because she might have poisoned their reservoirs.

Then there were the strange dealings in the casino at the Vitosha Hotel, where east and west met over the most unexpected deals. The establishment's staff was exclusively English, the *croupières* being stunningly beautiful natives of Hounslow.

So Bulgaria was, in those communist days, an improbable place, all the more so because Sofia possesses a genuine yellow brick road. I had gone there to expose the story of the name changes enforced on members of the Turkish minority but ended up writing about the frail state of a nonagenarian witch, called Vanga, who was an adviser to the politburo.

I had always worried that the collapse of communism might lead to some kind of normalisation of this fascinating land. A swift examination of various national daily newspapers over the past month has shown that this, happily, is not the case. In the middle of September *24 Chassa* led with the following story: "Extra-terrestrials from the planet Krissi disappointed 3,000 local enthusiasts who gathered to greet them at an airfield near Rousse (on the Danube) at 11am yesterday."

It emerged that three mediums had successfully got the Bulgarian air force to cease all training flights from Rousse to allow the travellers from Krissi to land. But a rival paper, *Standart News*, said the extra-terrestrials had not arrived because of the failure of the country's president, Zhelyu Zhelev, to come and meet them, thereby ignoring a key demand of the mediums.

The incident had important commercial and military lessons. The deputy chief of the airfield said: "We proved we are able to receive even extra-terrestrials. So I see no reason why our airfield should not become an international airport."

And an editorial in *24 Chassa* concluded: "At least such hoaxes help keep our skies clear of hostile invasions. Never have the military monitored them so carefully as in the expectation of the extra-terrestrials near Rousse. For a change, our mediums could, from time to time, spread rumours that Martians are coming by sea. Then Turkish fishing boats poaching in our waters would stand no chance..."

A month later the same newspaper was reporting on an unidentified flying object conference in Sofia. A local insurance company had used the occasion to offer protection against Ufos and poltergeists. Any abduction would be covered as well as "physical and psychic damage". One insurance magnate was quoted as saying that Britain offered similar policies.

In fact the Bulgarian insurance industry itself appears to be going through some restructuring. Charges have been made in the matter of the murder of a deputy education minister, who is alleged to have been shot by the president of the BG-Plan insurance company. The company is said to have been led to believe it would win the contract to insure the country's schools but had been disappointed.

Trud, another daily, reported that BG-Plan had been founded by a former secret policeman and had gained a large market share through pyramid selling, which must be unusual in the insurance industry. The paper's other observations on the matter may be legally contentious, so they will not be repeated here.

You might still be wondering about Planet Krissi. "Krissi" is in fact the diminutive of Kristyna in Bulgarian. So in English the planet is known as Chrissie. That is about all that is known in fact. Still, it's nice to discover that this forgotten corner of Europe, which is said to be an also-ran in the race to achieve a market economy, has taken the lead in mastering the techniques of popular journalism. But then it has the right raw material.

■ *James Morgan is economics correspondent of the BBC World Service*

Looking into the future: Francis Fukuyama: a reading of French history does not make him optimistic

Alan Weller

Interview

A book beyond the end of history

Andrew Adonis discusses social cohesion and the English paradox with Francis Fukuyama

Francis Fukuyama came to fame with the declaration, made shortly after the collapse of the Berlin Wall, that history had in a real sense "ended" with the triumph of western capitalism and democracy.

Absurd and ridiculous propositions are advanced every day and ignored every day. But with the right congruence of person, place and theme, the most ridiculous ideas can take off. Sometimes they go on to found schools, parties, even religions.

So, some say, it was with Fukuyama. 1990 was the year of modern western civilisation triumphant. Fukuyama proclaimed its international victory with the authority of a senior adviser at the US State Department, bearing a name conjuring up the mystical union of west and east.

He is now promoting his next book, *Trust*. It is concerned with the less shattering but still global theme of what makes some societies more economically successful than others. Much of it, he claims, has to do with a country's level of social cohesion – "trust" – and its manifestation in strong intermediary institutions between families and central government.

Fukuyama is a straightforward American Republican, and could not be more so if he changed his name to Bob Dole. He has a Japanese mother and paternal grandfather, but he was born in Chicago, the son of a Protestant congregationalist minister. He grew up in New York, studied at Harvard, and never learnt to speak Japanese. Or even to feel particularly Japanese.

"I tried to do a field in Japanese politics when at graduate school at Harvard. But I found it just too boring."

Is he thoroughly American? "That's never been a question. Reviving your ethnic identity got very trendy in the 1980s, but for most of my life I was never conscious of being particularly different."

Nor is the State Department tag indicative of a career spent comprehending the world's cultures and peoples at first hand. He spent just three years in the department in the early 1980s, and one more year in 1989, as a policy planner.

The US has always been his home, "although like most Americans I have moved cities quite a bit".

Does he want to return to government service? "I'm quite happy at the Rand Corporation [his current employer], and anyway could only go back if the Republicans get back into the White House."

All of which makes Fukuyama's theories perhaps that much more comprehensible and less exciting. It is the world seen from Harvard library. Not that he is anything less than a first-class political science graduate who, in writing his latest book, has mastered an impressive mass of literature on what makes societies tick.

Almost all his source material is in English. Yet England itself, which one might have thought critical to any study of the social roots of economic success in the west, barely features.

His book is really about six countries. Three of them – the US, Germany and Japan – are rated "high trust" by virtue of their dense web of non-state social institutions, while the other three – France, China and Italy – are rated "low trust" because families and/or the central state are the powerful social forces in the land.

And the English? "It was kind of hard to fit England into my scheme – it is a real paradox in many respects." For while England has plenty of intermediary institutions, "yet it seems to me that there is this overlay of class antagonisms which means that many of the more communal forms of organisation which should work don't work".

So much for John Major's classless society. But what of America's acute racial divisions and the high levels of mistrust they generate?

The US is slipping down the international trust league, Fukuyama concedes. "You can measure that in all sorts of ways, notably in the rise in litigation and violent crime – the civil and criminal sides of the law... US parents now teach their children not to be trusting of strangers, which is quite different from small-town America."

But he thinks race is different from class. "If there is an economic class divide, that tends to make things much more difficult because enterprises depend on the interaction of managers and workers. The American racial divide is less significant from an economic standpoint because basically what's happened is that blacks have been cut out of the mainstream of economic life right from the beginning, so that it doesn't matter so much to the economy."

Put bluntly, America's race problem "is quite different and is quite limited to African-Americans". This is doubtless reassuring for US Republicans as they confront urban crime statistics.

But what is the moral of *Trust* for countries seeking to build or rebuild civil society? "Basically the formula that came out of the 1980s is the right one – that liberal democracy and capitalism are the essential preconditions."

The crucial thing is to dismantle the state in an orderly fashion. "Part of the problem in the former communist world is that the state has gone from being too strong to being too weak. You need to restore the authority of legitimate government. After that, the state has to recognise that it has important but limited functions and then get out of the way to permit the private sector to create wealth and allow civil society to create a social solidarity which is not dependent upon the state."

Fukuyama's reading of French history does not make him optimistic that this can be done fast or painlessly. He is especially downbeat about Russia. "If anything, Russia is going to look like France in the last couple of hundred years... constant alternation between hyper-centralisation of authority and anarchical decentralisation, because there is little cohesiveness in the middle ground."

But what about the impact of the liberal democracy and capitalism lauded in *The End of History?* "What's happening in the modern world is globalisation and homogenisation... so probably today there is more chance of overcoming cultural inertia than in previous periods." He also says that, in contrast to the fascist era, "the extreme right these days is extremely anti-statist".

The notion of Germany and Japan as "high trust" societies provokes some questions about the definition of trust. Trust among whom? "One of the characteristics of highly communitarian societies is that they can be rather closed to outsiders."

He elaborates. "To some degree there is an inverse relationship between social solidarity within such a society and its relations with people that stand outside the community."

"So it's no accident that Germany and Japan are highly homogeneous racially and culturally but have also been perfectly beastly towards their neighbours, because if you are not German or Japanese you don't share their moral consensus."

Religion plays an important part in Fukuyama's schema. He is broadly behind Max Weber's celebrated thesis that Protestantism was critical to the rise of western capitalism. He extends the argument to Japan, stressing the importance of Buddhist sectarianism in Japan's social and economic development. He himself is a "conservative Presbyterian".

One of the things that makes him optimistic about the future is the "protestantisation of the Catholic Church". He is also impressed by the rise of avowed Protestantism in the Catholic societies of Latin America.

"In Brazil there is a saying that there's one morality for the family and another for the street, which means if you are elected to public office your first obligation is to steal on behalf of your family."

But 20 per cent of Brazil's population is now Protestant, a large proportion of that evangelical.

Fukuyama is a mine of such statistics, even when they do not fit his own thesis. Noting that his hostile critics in the US have mostly been economists, he cites Herman Kahn, one of Rand Corporation's "great thinkers", who wrote extensively about thermo-nuclear war.

"He had this great saying that there are two types: there are the modellers, and there are the people who understand the real world."

Where does the "real world" go next? Fukuyama is currently exploring the information revolution – fashionable Newt Gingrich territory, except that he does not claim, like so many US new media gurus, to see it as the handmaiden of all that is modern, peaceful and beautiful.

"It has big implications and not all of them are positive. Look at the global village: Americans and Asians know each other better than ever before, but it has not helped mutual understanding."

Some bits of history, it seems, will end sooner than others.

هكذا من الأصل

WEEKEND INVESTOR

Results due next week

Company	Sector	Announcement due	Dividend (p)* Last year interim	Final	This year interim
FINAL DIVIDENDS					
AG Holdings	PP&P	Tuesday	2.25	3.25	2.25
Bellway	B&C	Thursday	2.2	4.8	2.45
Benchmark	RtlGn	Monday	-	-	-
Celsis International	Hlth	Thursday	-	-	-
Conrad	SpSv	Monday	-	-	-
Cooper (Frederick)	Eng	Thursday	0.8	1.7	0.8
Fleming Japanese Inv Trust	InTr	Tuesday	-	-	-
Kwik-Save Group	RtFd	Thursday	5.75	13.5	5.85
Lowland Investment Co	InTr	Friday	3.3	6.0	3.5
Smart (J) Contractors	Prop	Thursday	2.3	6.2	2.4
TR Far East Income Trust	InTr	Friday	1.4	1.4	1.5
UK Estates	Prop	Monday	-	-	0.1
INTERIM DIVIDENDS					
Abtrust New Thai Inv Trust	InTr	Monday	-	1.1	-
BET	SpSv	Wednesday	1.2	2.8	-
Bertam Holdings	FdPr	Tuesday	-	4.0	-
Betterware	RtlGn	Wednesday	0.85	1.75	-
Boots	RtlGn	Thursday	5.35	11.85	-
Burtonwood Brewery	Brew	Friday	0.8	4.5	-
Campari International	Text	Monday	-	-	-
Caspian	Med	Tuesday	-	-	-
Craig & Rose	Chem	Monday	-	-	-
East German Investment Trust	InTr	Tuesday	-	-	-
Helene	Text	Monday	0.65	1.35	-
Independent Parts Group	EngV	Monday	-	2.8	-
Innovative Technologies	Hlth	Tuesday	-	-	-
Invesco Korea Trust	InTr	Monday	-	-	-
JKX Oil & Gas	OilE	Monday	-	-	-
Le Creuset SA	HseG	Tuesday	-	-	-
MCIT	InTr	Tuesday	-	-	-
Premier Health Group	Hlth	Tuesday	-	-	-
Rowe Evans Investments	FdPr	Tuesday	-	2.0	-
Sainsbury (J)	RtFd	Wednesday	3.2	8.5	-
Saracen Value Trust	InTr	Thursday	0.6	0.6	-
Shell	OilI	Thursday★	11.2	15.9	-
Tamaris	Hlth	Tuesday	-	-	-
Thames Water	Wtr	Tuesday	8.2	17.1	-
Ticketing Group	L&H	Tuesday	-	-	-
Tullow Oil	OilE	Tuesday	-	-	-
Undervalued Assets Trust	InTr	Friday	-	-	-
Westminster Scaffolding	B&C	Thursday	-	-	-
Whitbread	Brew	Wednesday	5.35	14.85	-

*Dividends are shown net pence per share and are adjusted for any intervening scrip issue. Reports and accounts are not normally available until about six weeks after the board meeting to approve preliminary results. ‡‡ 1st quarterly. ♦ 2nd quarterly. ★ 3rd quarterly

Last week's preliminary results

Company	Sector	Year to	Pre-tax profit (£000)		Earnings* per share (p)		Dividends* per share (p)	
Abtrust High Income	InTr	Sept	81.52	(60.25)	6.5	(3.28)	6.2	(2.8)
Air London Intl	Trns	Jul	1,078	(640)	7.6	(4.7)	4.8	(3.5)
Edinburgh Dragon Tst	InTr	Aug†	108.84	(125.64)	0.044	(-)	-	(-)
Eurovein	Eng	Jul	1,188 L	(1,070)	-	(14.6)	0.61	(-)
Freeport Leisure	Prop	Jul	183	(-)	0.7	(-)	-	(-)
GR Holdings	L&H	Jun	346 L	(578 L)	-	(-)	-	(23.6)
Heritage	Dist	Apr	819 L	(105)	-	(-)	-	(-)
I & S Enterprise Cap	InTr	Sept	147.0	(123.6)	1.35	(-)	-	(-)
Investors Capital	InTr	Sept	152.85	(134.2)	5.65	(5.43)	5.3	(5.2)
Kleinwort Secd Endwmt	InTr	Sept	105.9	(88.5)	-	(-)	-	(-)
London & St Lawrence	InTr	Aug†	187.74	(180.4)	5.66	(8.86)	6.24	(6.24)
M&G Equity Income	InTr	Sept	162.7	(141.1)	5.81	(5.32)	5.77	(4.8)
MY Holdings	PP&P	Sep	8,120	(5,410)	6.33	(4.49)	2.0	(1.6)
Majedie	InTr	Sept	249.6	(227.0)	6.5	(5.64)	5.75	(5.25)
McKechnie	Eng	Jul	45,300	(35,300)	33.8	(27.1)	16.5	(14.75)
Molyneux Estates	Prop	Jun	2,310	(1,110)	4.61	(2.61)	3.25	(2.0)
Overseas Inv Trust	InTr	Sept	422.9	(417.7)	4.16	(3.61)	3.6	(3.3)
Pressac	E&EE	Jul	4,819	(2,218)	9.01	(5.3)	3.5	(2.69)
Scot Metropolitan	Prop	Aug	8,520	(11,300)	5.91	(8.82)	2.5	(2)
Smiths Industries	Eng	Aug	138,000	(117,800)	31.3	(26.7)	14.4	(13)
UDO	OtSv	Jul	6,528	(4,910)	15.31	(11.85)	8.6	(8)
Wolseley	BdMa	Jul	245,400	(202,300)	29.72	(25.39)	9.8	(8.36)

Last week's interim results

Company	Sector	Half year to	Pre-tax profit (£000)		Interim dividends* per share (p)	
Aminex	OilE	Jun♦	298 L	(348)	-	(-)
Anglo St James	Prop	Jun	51 L	(44)	-	(-)
Athelney Trust	OthFn	Jun	2	(-)	-	(-)
Boxmore	PP&P	Jun	5,480	(3,750)	1.62	(1.375)
British & American	OthFn	Jun	778	(875)	5.5	(4.80)
Bula Resources	OilE	Jun‡	125 L	(218 L)	-	(-)
Campbell & Armstrong	B&C	Jun	888 L	(198 L)	-	(-)
Cressnel	E&EE	Sep	-	(-)	0.55	(0.55)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK Smaller	InTr	Sept	130.21	(111.88)	1	(1)
Verdant	InTr	Sept	25.18	(21.2)	1.78	(1.68)
Voss Net	AIM	Jun	328 L	(300 L)	-	(-)
Value & Income Trust	InTr	Sept	121.8	(105.6)	2.2	(2.1)
WPP	Med	Sep¾	376,800	(344,000)	-	(-)
Wansford Investments	Prop	Jun	3,880	(3,430)	2.75	(2.75)
Westbury	B&C	Aug	6,500	(5,700)	2.0	(1.9)
Yorklyde	Text	Jul	2,058	(1,780)	2.65	(2.4)

(Figures in parentheses are for the corresponding period.) *Dividends are shown net pence per share, except where otherwise indicated. L=loss. † Net asset value per share. ‡ Irish punts and pence. ♦ US dollars and cents. ¾ Third quarter figures.

Directors' dealings

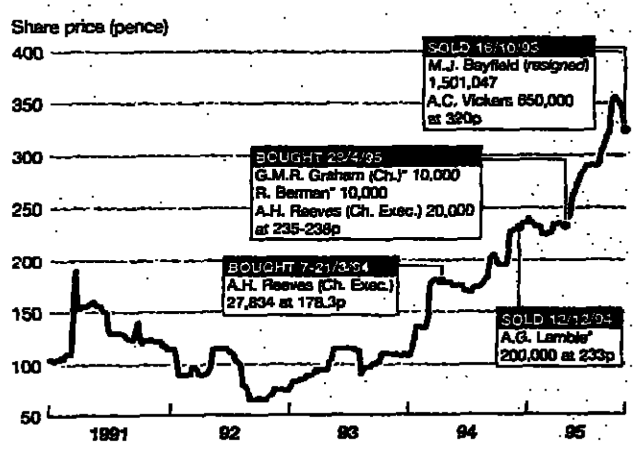
There has been significant selling at several companies which have had long periods of spectacular share performance, *writes Vivien MacDonald of the Inside Track.* One was Dewhirst, where Brian Farrow sold 150,000 shares, two-thirds of his entire holding. This looks sensible given that the price has levelled out recently at 190p, although the company has excellent forecasts.

□ Largest transaction of the week was at Delphi Group (formerly Computer People). It has been a star performer over the past two years, outperforming the market by 170 per cent up to 333p. Rupert Bayfield sold 1.5m shares, most of his holding, following his resignation from the board, but there were significant sales also by both Anthony Vickers and Anthony Lambie, who cashed in 775,000 shares between them. Both retain considerable holdings, though.

□ Grosvenor Inns has also had a healthy increase in its shares since April, rising 23 per cent to 230p against a strong market. With good forecasts, it appears to be bucking the trend in the breweries sector. Pressing personal commitments were the reason for the sale of 200,000 shares by David Brice, although he remains the largest shareholder on the board with more than 500,000.

□ The transactions in Era Group, reported on October 14 in the directors' dealings table, were carried out at 8.5p each.

Delphi Group



Source: The Inside Track, Edinburgh

* Non-executive

Directors' share transactions in their own companies

Company	Sector	Shares	Value £'000	No of directors
SALES				
Delphi Group	SSer	2,276,047	7,283	3
Dewhirst Group	Text	150,000	281	1
Flying Flowers	RetG	20,000	25	1
Grosvenor Inns	Brew	200,000	438	1
Headlam Group	Dist	12,500	23	1
Helical Bar	Prop	75,000	242	1
Highcroft IT	Prop	5,000	11	1
Jacobs (JI)	Tran	200,000	132	1
Metsec	Eng	25,000	33	1
Mirror Group	Mdia	18,000	31	1
Neilson Cobbold Hld	Uncl	5,000	10	1
Quicks Group	Dist	26,016	37	1
Zeneca	Phrm	10,000	119	1
Hornby Group	L&Hl	60,000	96	1 *
Southern Water	Watr	75,000	525	2 *
Vega Group	SSer	15,190	51	1 *
PURCHASES				
Astec (BSR)	Elec	20,000	23	1
Brandon Hire	BCon	15,000	14	1
British Telecom	Tele	3,992	16	1
Cattles (Hldgs)	OthF	6,000	12	1
Laporte	Chem	1,206	10	1
Photo-Me	OS&B	20,000	35	2
Scottish Pride	Misc	32,540	15	1
Walker (JO)	BM&M	6,000	31	1

Companies must notify the Stock Exchange within five working days of a share transaction by a director. This list contains all transactions (listed and USM), including exercise of options (*) if 100% subsequently sold, with a value over £10,000. Information released by the Stock ExchangeOctober 16-20 1995. Shares traded are ordinary. Source: The Inside Track, Edinburgh, 0131-538 7070

New issues

The issue of three pathfinder prospectuses and the pricing of a fourth prospective flotation have ensured that it has been a busy week in the new issues market, *writes Christopher Price.*

Tom Cobleigh, the independent pub chain, unveiled half-year pre-tax profits of £1.04m on sales of £9.5m, compared with £802,000 on turnover of £6.8m in the same period last year. The group intends to raise £22m in a placing and intermediaries offer.

Based mainly in the east Midlands, Yorkshire and Humberside, it will have 46 managed houses, accounting for 90 per cent of sales, on flotation.

No existing shareholder is selling out. Impact day is expected in the middle of next month and sponsor to the flotation is Samuel Montagu, with Hoare Govett as broker.

□ Enterprise Inns finalised its flotation price at 145p a share, giving it a market value of £58.7m. Some 28.3m shares are being placed with institutions, with up to 20 per cent subject to clawback to meet retail demand via intermediaries.

The flotation will raise about £18.6m of new money, which will be used to reduce debt. The group runs 489 pubs and has plans to expand its estate to 800 over the next two years.

Profits before interest and tax rose from £8.84m to £10.4m in the year to September 30, on sales up 8 per cent to £24.6m. The issue is sponsored by Morgan Grenfell and James Capel is broker.

Dealings are expected to begin on November 6.

□ Vero, which makes racks and enclosures for the electronics industry, is forecasting a 52 per cent increase in operating profits to £12.6m, prior to exceptionals, for 1995.

The six executives who led the £33m management buy-out from BICC only 18 months ago will become millionaires on flotation if the market valuation reaches the expected £125m.

The listing, via a placing and intermediaries offer, is expected to raise about £45m.

□ Cortworth, the specialist engineering, plastics and controls group, is forecasting a 33 per cent rise in operating profits for 1995, from £6.4m to £8.5m.

The group, which is due to come to the main market in mid-November, is likely to be valued at £60m.

About £30m is being raised through the placing and intermediaries offer.

Rights issues

Freeport Leisure is to raise £9.5m via a 1 for 1 at 100p rights issue.

Offers for sale, placings & introductions

Channel Holdings is to raise about £5m via an issue of shares at 22p.
Cortworth is to raise about £30m via a placing and offer.
Enterprise Inns is to raise £18.6m via its flotation, with shares priced at 145p.
Hoare Govett Smaller Co's Index Inv Tst is to raise up to £26m via an offer of conversion shares at 100p.
Independent Parts is to raise £5.5m via a placing and offer of 4.21m shares at 130p.
Tom Cobbleigh is to raise about £18-22 via its flotation.
Vero is to raise about £45m via a placing.

Current takeover bids and mergers

Company bid for	Value of bid per share**	Market price**	Price before bid	Value of bid £ms**	Bidder
Alldns ‡	110*	109	82	3.70	Coats Viyella
Aran Energy	77.7	76	76	203.00	Statoil
Beckman	68*	59	40	7.20	Directors
Bondpaper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Chiltern Radio	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Conmore	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Country Casuals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dobson Park	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Eastern	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Decor	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Floors	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Magnolia	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Manweb	[illegible]	[illegible]	[illegible]	[illegible]	Scottish Power
Midlands Electric	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NORWEB	[illegible]	[illegible]	[illegible]	[illegible]	North West Water
SWEB	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Scantronic	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Southern Electric	[illegible]	[illegible]	[illegible]	[illegible]	National Power
TSB	[illegible]	[illegible]	[illegible]	[illegible]	Lloyds
Tomkins Clar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Vistec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Prices in pence unless otherwise indicated. *All cash offer. §For capital not already held. ‡ Unconditional. **Based on lunchtime prices 27/10/95. §§Shares and cash. ✱ Value of bid per share includes £2 special dividend. §Value of bid per share includes 86.3p special dividend.

Diary of a Private Investor

A search through a sector can unearth hidden gems

Kevin Goldstein-Jackson has found it profitable to make a close examination of companies that other investors may have overlooked

Stock market sectors have a certain fascination. It is interesting to compare companies within the same sector: their price/earnings ratios, dividend yields, market capitalisations.

Sometimes, a company with a p/e lower than others in its sector can indicate that it has been overlooked by investors and that further investigation might reveal it to be a worthwhile investment proposition. Several times, I have profited from investing in such companies. Eventually, investor interest in them increased and their share prices rose, leading to their p/e ratios rising nearer the sector average.

If it is known that a particular company is seeking to expand its activities by means of a takeover, then it also can pay to analyse firms in the sector in which that company operates. Which are the ones most likely to be receptive to a takeover bid? Which firms have a market value that the possible bidder can afford?

Individual sectors also are subject to change. Newly floated companies join and some companies leave, perhaps because a change in the nature of their activities. Generally, a company is allocated to the sector in which it derives more than 50 per cent of its profits, ignoring (as far as possible) any temporary fluctuations in the fortunes of its various businesses. Again, it can prove rewarding to watch for these changes.

Institutional investors dominate the market. But sentiment can also have an influence on the share price performance of companies within various sectors. For instance, one sector might be regarded as out of favour, resulting in lower share prices and p/e ratios, whereas another could be rated very highly, with much higher share prices and ratios.

If I know a company is going to change sectors, I try to analyse what this might mean to its share price. Will a company moving from a lowly-rated sector to one that has a high rating be re-rated within a comparatively short time, so proving a rewarding investment to people who backed it before its move?

Will a company changing from a high-rating, flavour of the moment sector be downgraded if it moves to one that is regarded less highly? If so, it could pay investors to sell its shares before the move.

> If I know a company is going to change sectors, I try to analyse what this might mean to its share price. Will it be moving from a lowly-rated sector and is it likely to be re-rated?

Sectors also reflect changing times. The last major upheaval in the FT-SE Actuaries All-Share index took place on January 4 1994. Several hundred of the 3,000 securities listed in the FT changed sectors.

Before then, pharmaceutical companies such as Glaxo, Scotia, SmithKline Beecham and Zeneca were listed under Health and Household along with Jeyes, which makes disinfectants and cleaning products, and Mayborn Group, which produces fabric dyes, florists' sundries and baby products.

The increased importance of pharmaceutical companies to the UK economy (and the stock market) was recognised by the creation of a new Pharmaceuticals sector. Jeyes and Mayborn remained in a renamed Household Goods sector.

Another new sector was Extractive Industries, which took in companies once included under Mines. Oil and Gas was split into Oil Exploration and Production (including such companies as Premier, Tullow and Tuskar) and Oil, Integrated (containing British Petroleum, Shell and similar firms). British Gas was included in a Gas Distribution sector.

One sector I was sad to see abolished was *Plantations*. Many years ago, the London stock market listed many companies with interests in tea, rubber and other plantations overseas. But then, Britain had an empire.

A number of the plantation companies merged. Many more had their assets acquired by companies and governments in the countries where they operated. Some of the old plantations proved to be worth a fortune as economies in countries such as Malaysia and Indonesia expanded and the land was used for housing and other developments.

But the importance to the nation, and the stock market, of the UK-listed plantation companies dwindled to such an extent that, by the end of 1993, the size of their combined market capitalisations made it inappropriate for them to have their own, separate sector.

Williamson Tea Holdings and a number of other companies moved to Food Manufacturers although some, such as Rowe Evans and Bertam, went initially into Other Services and Businesses before moving to a renamed Food Producers' sector.

The changes of January 1994 produced opportunities for astute investors to spot companies likely to benefit from the changes, and to reduce their exposure to others where a change of category meant they were likely to be less favoured by the institutions.

A much more modest change in sectors is due to take effect after the close of stock exchange business on December 31 this year. Other Services and Businesses has now become so small that it is to be abolished, and its companies re-allocated to other sectors.

Two new sub-sectors are being created: Stationery Products and Waste Control. It will be especially interesting to see how these perform in relation to other areas of the market.

The committee which examines and oversees on FT-SE-A indices has also recommended dividing the Leisure sector into three: Hotels, Home Entertainment and Leisure Facilities.

It also discovered that companies in the breweries sector made more money from other activities, such as operating pubs, restaurants and various retail operations, than they did from brewing.

So Breweries is to be enlarged and renamed to include breweries, pubs and restaurants. To accommodate any "pure" brewing companies, Spirits, Wines and Ciders is to be redefined and renamed Alcoholic Beverages.

Investors should be taking some time now to assess the likely impact of these changes on their investments. Being prepared is the best way to make profits and cut losses.

Weekend Investor

Wall Street

Home loan stumble sparks recession fear

Maggie Urry tells a cautionary tale of glowing prospects that lost their lustre

You do not have to watch US television for long before the clean-cut features of Jim Palmer, a baseball Hall of Famer, appear. He looks sincerely into the viewer's eyes as he offers a mortgage, "even if your credit is less than perfect". Just ring the toll-free number and ask the Money Store for a loan.

Using baseball stars to sell home loans to people with impaired credit histories has helped the Money Store to become one of the leading mortgage lenders in the US. This week, it reported a 60 per cent rise in third quarter net profits, increased its dividend *and gave a glowing description* of its prospects.

It seems strange, then, that the company's shares have plunged since Wednesday, from \$55¼ to \$37¾ yesterday morning.

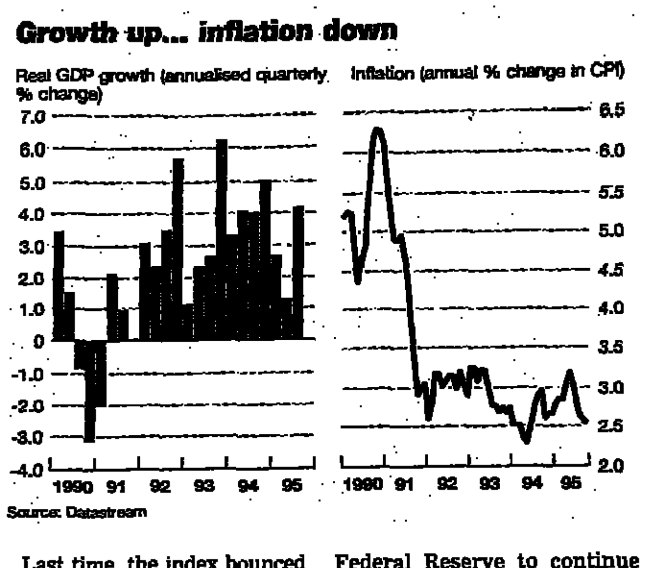
Analysts fixed on one number in the Money Store's results. There had been a sharp rise in the proportion of home loans where the borrowers were more than 30 days late on their payments. Taken alone, this would not have much effect on the market. But it coincided with a number of *other indications that consum*ers had overspent on their credit and were having some difficulty paying their debts.

Dean Witter, Discover, which runs a number of credit cards as well as being a stockbroker, also reported earnings this week. It said loan loss provisions on the credit card side *had jumped 42 per cent in the* third quarter. On Monday, American General, the insurance group, reported a sharp rise in its consumer credit bad debts.

As analysts began to focus on the problem, they realised this trend could have been spotted earlier this month in *results from several banks*, including the giant Citicorp. Suddenly, the financial sector – which, after technology, has been one of the stronger performers this year – went out of favour. Sharp drops in share prices led the stock market, as a whole, lower.

By Thursday's close, the *Dow Jones industrial average* had fallen more than 90 points on the week, even after recovering 35 points from that day's low point. That low was not far above the 4,660 level to which the index fell two weeks earlier when it suffered its last technology sell-off.

Growth up... inflation down



Source: Datastream

Last time, the index bounced smartly to make a new high above 4,800. Traders were asking yesterday whether 4,660 *will again provide a trampoline* for the market. One indication could come from the mutual funds.

A continuing theme this year has been the strength of cash inflows into mutuals which have, in turn, put the cash into the market. Whenever the index has fallen, the mutuals *have acted as a stabilising* force by investing that cash. This week, though, industry figures showed that the inflows had slowed in September – although, with \$12.7bn going into equity funds that month, the mutuals still have plenty of cash to put into the market. But combining the idea that a *consumer credit crunch* is looming, along with the first signs of a slowdown of flows into mutual funds, could give the market pause for thought.

Have consumers been putting their cash into the stock market and then using their credit cards to buy goods? If so, will they now stop investing in *the market, or will they stop* spending in the shops? Either way, the suggestion was raised that a consumer-led recession was coming.

If it is, there was certainly no sign of it in yesterday's third quarter GDP figures. There had been a widespread expectation that the economy *was growing at around the 2.5* per cent rate which is considered generally to fit the "soft landing" scenario so desired by the markets.

Solid but not steamy economic growth, combined with low inflation, is supposed to provide the rationale for the Federal Reserve to continue cutting interest rates. Investors had hoped for a cut in mid-November, if the politi*cians could agree on the bud*get by then.

But yesterday's report that GDP grew at an annual rate of 4.2 per cent in the quarter, coming on top of a strong rise in orders for durable goods, scuppered the market's hopes for a rate cut in the near term. Bond prices fell sharply and *the stock market dropped, too*. But one comfort was that, with share prices down already this week, the market was able to hold up better than might have been expected yesterday. Another was that, within the GDP figures, there was good news on inflation. Perhaps the greatest comfort would be that, *if the economy is growing fas*ter than people thought, then corporate earnings may continue to rise rapidly as well.

The flood of third quarter earnings published in the past two weeks have been good in the main. But that has given little sustenance to the market, *which believes the momentum* of growth in earnings is slowing and has penalised any companies which have disappointed it. This week, there was a sharp drop in the share price of RJR Nabisco, the tobacco and food group, after it forecast that its 1995 and 1996 results would not meet analysts' *predictions*.

Dow Jones Ind Average

Monday	4755.48 - 39.38
Tuesday	4783.66 + 28.18
Wednesday	4753.68 - 29.98
Thursday	4703.82 - 49.86
Friday	

London

High fliers come down to earth

Philip Coggan examines the dramatic changes that can take place in a single week

How quickly things can change. The clocks went back in London last weekend, marking an end to British summer time.

The summer mood also seemed to be over on the world's stock markets. Only last week, the FT-SE 100 index and the Dow Jones industrial average were recording all-time highs. This week, both reversed direction sharply.

It is too early to tell if this represents the predicted 10-15 *per cent correction on Wall* Street. Bears have been frustrated repeatedly in their attempts to call the turn in the Dow. But its falls added to the belief that sentiment in London was influenced more by international than domestic developments.

On Monday, it was a rise in the D-Mark and fall in the dollar, triggered by political concerns about Italy and France, which caused stock markets to drop across the European continent. Thursday saw the contrary factors of President Boris Yeltsin's heart problems (which strengthened the dollar) and *the sudden fall in the* Mexican peso (which weakened it).

Finally, stronger-than-expected US economic numbers, by pointing to inflationary pressures and making an interest rate cut less likely, weakened both bonds and equities initially on Wall Street yesterday.

In other circumstances, UK equities might have received a *lift from the successful out*come of Wednesday's £3bn gilt auction. September's offering had been under-subscribed and proved a setback to the gilt market. But investors seemed to like the 20-year bonds on *issue this time, and the offer* was almost two times subscribed. Long gilts rose by around 1¾ points on the day, and the yield on the benchmark 10-year issue dropped back towards 8 per cent.

The gilt-equity yield ratio was starting to look a little *stretched at 2.2, so the bond* market rally gave equities some potential relief. But *shares seemed unable to* respond, however. By the close yesterday, Footsie had slumped to 3,497.9, almost exactly 100 points down from last week's all-time, intra-day trading high.

Wall Street's weakness was obviously a highly significant factor behind the fall but so was the failure, to date, of any of the recent takeover rumours to translate into reality. There was a *brief flurry* in Legal & General shares on Thursday with some traders speculating that NatWest Bank, which will eventually be flush with funds from the sale of its US Bancorp subsidiary, might be the bid*der*.

But a substantial bid for someone is needed soon. Much of the market's apparent strength has been concentrated in a relatively small number of potential takeover candidates.

The graph reveals how the broad market has weakened over the past month or so. It shows a cumulative *figure for* the daily totals of advancing minus declining *stocks*: when *most shares are going up*, the line rises; when they are going down, the line falls. The line clearly peaked in mid-September but, although Footsie has continued to hover around the 3,500 level, declin*ing stocks have been dominant* since then.

Another sign of the same problem is that the number of stocks making new 1995 lows was greater than the number of stocks making new highs on two days this week.

The most recent announcements from the corporate sector have not been *too encour*aging. A statement accompanying figures from Imperial Chemical Industries this week pointed to economic slowdown in Europe and the US and forecast that demand for chemicals would be flat.

British Gas was hit by comments from Clare Spottiswoode, *the industry's regula*tor, that the company's long-term gas contracts threatened its financial health.

The four-week average of the dividend index, this column's indicator of corporate sentiment, climbed off its low for the year but remains depressed at 45.5 per cent. In essence, this index shows *that* fewer than one-in-two companies are increasing their pay-outs. Back *in March, the index reached* 66.2 per cent.

All these factors have combined with a general feeling that the UK stock market rally, which has been running (with a brief pause for the Conservative leadership contest) since early March, has become rather tired.

At the start of the year, many analysts were opting for a 3,500 *target for Footsie* by the end of 1995, so investors may well be tempted to take some profits at that level. There are also respectable arguments that shares are fully valued at prevailing levels.

Research by S.B.C. Warburg *points out that real (adjusted for inflation)* share prices are now back at almost exactly the same level as at the 1993-94 peak.

Since 1965, there have been five clear peaks in real share prices, each of which was followed by a 10 per cent market correction over the subsequent 12 months.

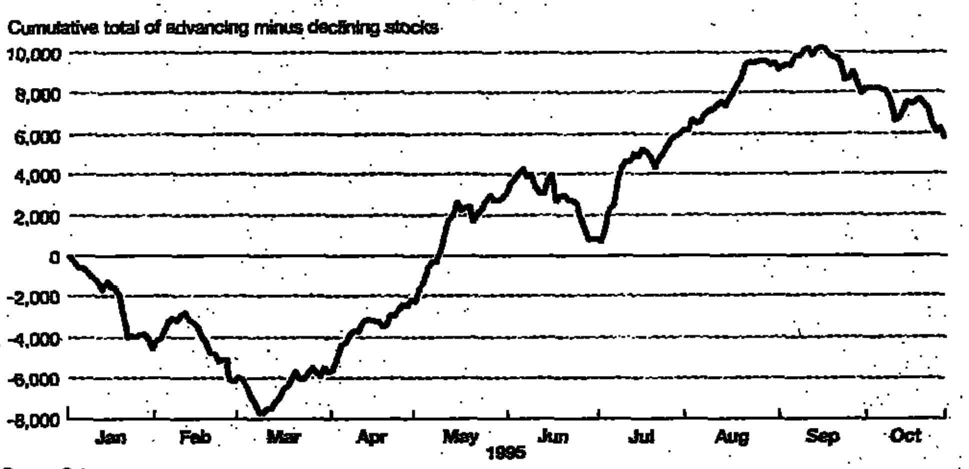
Robin Aspinall of Panmure Gordon, who has been bearish about UK shares for much of 1995, says: "Once the storm of takeover activity passes over, the market will be left looking rather soggy. Everybody is *suddenly talking about trading* ranges, as though they hadn't noticed that Footsie has been moving broadly *sideways* between 3,450 and 3,600 since the end of July."

So, how do the technical analysts, who pore over patterns in price charts, see the latest moves? Justin Bowater, associate director at Derivative Securities, says the UK market "is essentially in the same posi*tion as when* Wall *Street fell* out of bed two weeks ago".

He adds: "The next area of support for Footsie we see is 3,475 and, if that fails, our ultimate target is 3,370." Bowater sees such a drop as the first real downtrend in this Footsie rally.

No picnic: Bears have repeatedly been frustrated — Kobal Collection

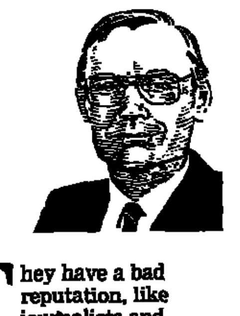
On the wane since September



Source: Datastream

Highlights of the week

	Price y'day	Change on week	1995 High	1995 Low	
FT-SE 100 Index	3497.9	-53.5	3593.0	2954.2	Wall Street weakness
FT-SE Mid 250 Index	3864.3	-75.2	3991.3	3300.9	In line with leaders
Airtours	321	-23	449	315	Holiday booking fears
British Gas	239	-13½	317½	235	Comments from regulator
CentreGold	70	-12	116	38	Takeover hopes fade
Danka Business	514	-81	600	330	£100m acquisition
First Leisure	345	+24	349	262	Bid talk
Glaxo Wellcome	846	+49½	871	587	Settlement of patent challenge
London Electricity	902	-35½	987½	548	Bid hopes recede
Meqnum Power	130	+17	202	99	Computer system development
Northern Electric	883	+18	989¾	621¾	National Grid dividend
Reuters	557	-26	594	404	Take profits advice
T & N	148	-19	197	140	Asbestos worries
Thorn EMI	1463	-88	1569½	997	Stock overhang
Wolseley	395	+18	411	324	Sector rerating



Barry Riley

Up the creek in a leaky boat

The ailing life industry needs to rethink its basic approach

They have a bad reputation, like journalists and politicians, but do we need life assurance salesmen after *all*?

The recent fall in new business levels of the life assurance industry has, in an important respect, been perverse. The savings industry – not just life companies, it is true – should be expanding, not contracting, to cope with the demographic pressures being faced by the UK, given the increasing trend towards privatisation of pensions and long-term care of the elderly.

But the industry is mistrusted by the public as never before. It is also *struggling to cope* with the higher standards of disclosure to customers which are now required by the regulators.

A few weeks ago, I attended a private conference at Gleneagles in Scotland where – by invitation only from the sponsor, Chase Manhattan – a number of the life industry's top executives gathered *to* exchange views. Would the opportunities of the year 2000 and beyond be accepted by today's companies or seized by various innovators and interlopers?

Certainly, present conditions are chaotic. Few companies are capable of controlling large sales forces adequately, and dwindling numbers of independent intermediaries are demanding higher and higher commissions. Telephone selling operations under "direct" labels are having only a limited impact. So-called *"bancassurance" offshoots of* the banks and building societies are also struggling to halt a slide in business volumes this year.

Meanwhile, it has become possible to make a quantum *leap in new technology*. Brokers who used to sneer that "a computer can't buy you a drink" are getting very thirsty. They are being told to do their business over electronic links or not at all. Several small *life* offices have shut, and the takeover of Provident Mutual by General Accident is the latest, but by no means the last, in a series of rationalisation moves.

The key challenge, however, is not technology but the relationship with the customer. The life industry has been driven by its sales channels for far too long. Life assurance, the old maxim says, *is always sold, never* bought. The industry has been plagued by a series of scandals, as in home income plans and personal pensions.

At Gleneagles, the executives were pleading, as usual, for new tax incentives to enable them to sell more business. In the past, though, the industry's privileges – including exemptions from disclosure requirements as well as tax breaks – have often been misdirected. Take, for instance, the endowment mortgage contracts that have been sold in millions over the past 10 or 15 years.

Even today, some building societies recommend them as a matter of normal practice. Theoretically, these plans are attractive to home buyers who keep up the instalments for 25 years, but involve considerable losses when they lapse after a few years. The main force driving them has beenthe availability of substantial initial commissions.

> The key challenge is the relationship with the customer

In aggregate, the effects *have been curious. Because* there is no repayment of the debt until the end of the contract, mortgage debt (now totalling around £380bn in the UK) continues to rise in spite of the weakness of the housing market. The problems of excessive gearing and persistent negative equity have been aggravated. Since 1989, average British house prices have fallen by 15 per cent but the stock market has risen by more than 50 per cent.

House buyers may not realise it, but they are transferring huge sums into *the stock market – where they* will eventually have more than £200bn invested. Money that might have been used to repay debt is piling up in endowment plans that are illiquid because the penalties *for early surrender are so* onerous.

Too many savers have never understood the crucial difference between the savings philosophies embodied in life companies, on the one hand, and short-term savings institutions such as banks and building societies, on the other. Life companies reward long-term investors but penalise without pity what they have regarded as disloyalty. So it has been, anyway, during the past years of minimal disclosure. It could be that, with greater transparency, the life offices themselves, and not their *customers, will have to bear* most of the costs when policies lapse. If so, there will have to be drastic changes in the shape of contracts.

Banks and building societies are quite different. They lure new savers with attractive rates – usually, there are no charges on new accounts, despite the substantial setting-up costs – but longer-term investors often subsidise the newcomers. Mobility, not loyalty, is rewarded. Free current accounts, for those in credit, reward activity and penalise inactivity. Again, poor *disclosure tends to be the* factor (along with simple inertia*)* that sustains all the cross-subsidisation.

You can argue about the rights and wrongs of these different approaches. So long as the customers know what is going on, they can make a choice. But it is interesting to see the banks getting into a cultural muddle as their bancassurance operations attempt to integrate both philosophies. It cannot be done without restructuring the long-term savings contracts. This is the biggest challenge to be faced by the Prudential as it seeks to expand into the short-term savings business through its proposed telephone banking.

In future, savers are likely to be locked into long-term savings by tax relief rather than by early surrender penalties. *We are seeing this* already with personal equity plans and personal pension plans. And, in Peps, competition is at last having the effect of driving down charges rather than pushing up the commissions of intermediaries.

When life assurance and pension contracts are bought and not sold, we will know we are definitely on the right track.

Offshore managed funds and **UK managed funds** are listed in Section One